JULY 1981

automotive executive

PUBLISHED FOR AMERICA'S AUTOMOBILE AND TRUCK DEALERS

Cash Management:
Is Yours A Steady
Flow Or Just A
Drip?

NADA COMMENTARY

Arnold W. Ivie

A friend and colleague has died. NADA and dealers are poorer for his passing, but immeasurably richer for his living.

Arnold W. Ivie, NADA Controller and Assistant Treasurer since 1967, died June 8 after a prolonged heart ailment. He was 55.

Friends and colleagues remember Arnold as a warm, unselfish and good man in the honest, old-fashioned sense. He was unabashedly a family man and a churchman, devoted to religious and humanitarian ideals and causes. He worked for his church, teaching, singing, directing and even conducting a long-running radio program. He also met frequently with fellow workers in a Christian study group that formed the basis for many of Arnold's deep friendships at NADA.

There was a fun-loving side, too. More than a few colleagues were the object of Arnold's pranks, but he laughed the loudest when the tables were turned.

Sailing had become his recreational passion in recent years. When the breeze was up, Arnold wanted to be out on the river in his sailboat—sometimes with his wife and daughters, and sometimes alone with the wind and water.

He also played golf a little. Those who knew him like to tell of Arnold's first-ever round of golf, attempted at the famed Pebble Beach course on California's Monterey Penninsula. He lost a lot of balls, got rained on and held up a few foursomes. Not a bad course, Arnold commented afterwards, but not as tough as he'd heard. Of course, he didn't count strokes for lost balls or when his ball wasn't going forward.

On the job at NADA, Arnold ran an open office, turning away no idea too small or unconventional. Loyal and generous to his staff and co-workers, Arnold was much more than an accountant. He was keenly interested in the bigger picture, the issues and meanings behind the numbers.

His abilities, energies, and interests extended beyond his prescribed responsibilities to encompass the larger needs and concerns of dealers. Responsible for a five-fold growth in NADA's budget during his 14-year tenure, Arnold pushed for changes in the system, striving to modernize and humanize accounting procedures and the budgetary process.

His successes were many and lasting, but characteristically they were humbly assumed. More significant, however, are the personal and professional goals and standards of accomplishment established by Arnold. These will continually inspire the officers, directors and staff of NADA.

We thank him for his gifts to us, for his friendship and his love of life.

Executive Notes

Pay parity. Speaking at General Motors' 73rd annual meeting, GM Chairman Roger Smith warned that the U.S. auto industry cannot continue to pay its workers $8-an-hour more than Japanese automakers pay without losing more jobs to them.

"This is too great a differential to overcome even with our new plants and new products," Smith said. "All our great technology and even the magic of robots cannot make up this difference."

Smith said GM is moving to introduce new products, cut costs, reduce absenteeism, and improve quality and productivity with a $40 billion capital investment program, but he said, "That is not enough. If we are to avoid losing more jobs to the Japanese . . .some basic changes in our wage structure must occur." Smith said a profit-sharing plan in the place of a portion of current wages and benefits would help offset labor costs and still "assure that our employees retain their jobs and share in the future with us."

★★★

Sizzling stereo system. Toyota has introduced a stereo system for autos that is so hot is has to be cooled with water.

The stereo system, which is standard on the 1981 Cressida models and optional on Coronas, features a heat pump cooling system, similar to an engine's radiator. Fluid moves through tubes surrounding the radio and four separate amplifiers, cooling the system and allowing it to produce 40 watts of power. Each amplifier drives one of four separate speaker channels, at 10 watts per channel. Most car stereos only have two amplifiers because of problems with heat dissipation.

Along with the cooling system, the electronic radio has several other features normally found only on home receivers. A quartz synthesizer locks directly on to broadcast frequency channels while turner transistors adjust for constantly changing reception conditions. Other circuits suppress interference noise. A state-of-the-art microprocessor computer chip serves as a digital brain for the system, monitoring and balancing the the complex electronic circuitry.

★★★

Quality control of the future? Subaru of America has launched its 1981 Key Dealer Program, a unique quality control program designed to monitor production errors.

Twenty-six Subaru dealers have been chosen to participate in the program. Each dealer submits all its repair orders to Subaru of America's service department for detailed computer coding. The resulting data are then checked and analyzed. If a recurring problem is spotted, it is brought to the attention of Fuji Heavy Industries of Tokyo, Japan, the manufacturer of Subaru vehicles, for corrective action.

★★★

Propane-powered vehicles. A new gas-saving option is available on some of Ford's medium- and heavy-duty trucks—a propane engine.

Ford began production of its propane-powered trucks at its Kentucky truck plant in April. According to Thomas Feaheny, Ford's vice-president of vehicle research the propane system costs about 70 percent less to produce than a typical mid-range diesel engine. Feaheny says propane is readily available in the United States and Canada at prices approximately one-third less than gasoline or diesel fuel.

Ford also plans to introduce a propane system in Canada during the 1982 model year as an option on Granadas and Cougars. Although these will be the first factory-produced propane engines to be offered by a North American automobile manufacturer, Ford has already produced more than 34,000 ethanol-fueled vehicles in Brazil, where the government requires manufacturers to modify a percentage of their cars to operate on ethanol. At the present time, Ford has no plans to market propane-powered automobiles in the States.

★★★

New academy grads. Fourteen students recently completed the 12-month training program at the NADA Dealer Candidate Academy. The graduates are: Jeffery Blanchard, Tallahassee, FL; Anne Campisi, Lakeland, FL; Chris Curran, Westport, CT; Stephen Debrecht, St. Louis, MO; William Farrish, Fairfax, VA; William Graves Jr., Brandon, FL; Carter Harrison, Rome, GA; Lenore Mardis, Somerset, PA; Wilson Phipps, Annapolis, MD; Bonnie Quantrell, Lexington, KY; John Raffealli, Reno, NV; Jeffery Rapp, Duluth, MN; H. David Warfield, Damascus, MD; and James Williams, San Diego, CA.

Since its inception in 1978, 44 candidate dealer successors have graduated from the academy. Nine of the graduates have been granted franchise agreements by various manufacturers and now operate their own dealerships.

NADA currently has two classes in progress, with the next class scheduled to begin August 30. Current tuition is $5,000 plus travel, room, and board. To obtain an application to the academy, call John Clancey, administrator, at (703) 821-7216.

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LEGAL BRIEFS

Sales Tax Ruling, Dealer vs. Fiat, Etc.

Rejection of franchise application did not give rise to antitrust injury

A dealer sued under the Sherman and Clayton Acts for antitrust injuries allegedly caused by a Fiat distributor's rejection of the dealer's application for a new Fiat franchise. *Ron Tonkin Gran Turismo, Inc., v. Fiat Distributors, Inc.,* 637 F2d 1376 (9th Cir. 1981). The United States Court of Appeals affirmed the grant of summary judgment made for the Fiat distributor in the District Court.

The Sherman Act claim was based on the dealer's narrow definition of *relevant product market.* It was argued by the dealer that the market was solely for Fiat cars and that the presence of a single Fiat dealer was therefore monopolistic. Fiat countered this argument by saying that competing lines of vehicles were available. Thus, the presence of only one Fiat dealer, with other-line dealers present in the market, did not prove market domination or anticompetitiveness. Fiat claimed the relevant market consists of cars in general, not just Fiats. The Circuit Court of Appeals also accepted this broader definition of product market. Thus, the Sherman Act claim failed.

The dealer was also unable to prove a violation of the Clayton Act, which requires a showing of two separate products being tied to the other in such a way that the purchase of the first product demands the purchase of the second. Furthermore, the court said there was no executed franchise agreement that could have been violated. The dealer *merely* had the hope of receiving the franchise.

Iowa used car dealers subject to sales tax on repairs

A provision of the *Iowa Code* that applies the sales tax on automobile repair services performed on used cars owned and held for sale by auto dealers has been held valid. The exemption for "processing" does not apply to the repair of such cars. Auto repair was considered to be outside the meaning of the exemption because the repair service does not transform raw material into a finished product, even though it makes the car more attractive to a purchaser. *Iowa Automobile Dealers Association and Elebert Chevrolet, Inc.,* Iowa Supreme Court, February 18, 1981.

Recent tax court rulings and dealers

On April 6 of this year, the United States Tax Court decided a case of major importance to all dealers engaged in automobile leasing. In *Swift Dodge v. Commissioner of Internal Revenue,*76 TC No. 47, the Court ruled in favor of the automobile dealership in determining that the open-end lease agreements in question were *actual leases,* not *conditional sales contracts* as claimed by the IRS. This also permitted the investment tax credits claimed by the dealer for the vehicles covered by those agreements.

This column is prepared by the Legal Group of the National Automobile Dealers Association. For further information or questions concerning the items appearing in this column, write: **Legal Briefs, NADA Legal Group, 8400 Westpark Dr., McLean, VA 22102.**

In rejecting the arguments by the IRS, the Tax Court stated that Swift Dodge *did* retain the risks and responsibilities of a lessor. The dealership had to pay monthly bank loans on the vehicles, it maintained insurance on the leased vehicles, and, more importantly, it assumed the risk of the lessee defaulting or terminating the lease early. As the owner of the vehicles, Swift was therefore entitled to Section 38 investment credit.

The IRS *does* have 90 days from April 6 to appeal the Swift Dodge decision, and if anything eventful does occur, NADA's Legal Department, and **Æ,** will keep dealers advised.

But assuming that the Swift decision does stand, it should help remove the cloud from this "conditionnal sales contract" problem which has troubled lessors the last few years. Many dealers who have been audited on this point may now have substantial justification for their position.

The NADA Legal Group wants to point out, however, the decision in *Swift Dodge* is limited to the facts of the case, and the IRS *may* still *seek* to treat a particular "lease" as a conditional sale.

★★★

In another opinion issued May 11, the Tax Court ruled in favor of a Maryland Chevrolet dealer, stating that the dealership, which had elected the dollar-value last-in, first-out (LIFO) method of computing its inventory, was not required to establish multiple pools corresponding to model lines of vehicles sold, despite what the IRS had asserted. *(Fox Chevrolet, Inc. v. Commissioner,* 76 TC No. 62.)

The Tax Court did state that automobiles and trucks were sufficiently dissimilar as to require separate pools for those vehicles, one for new cars and one for new trucks. Dealers adopting LIFO are now free to choose whether a single or multiple pool for new cars is most advantageous.

In a related case, *Richardson Investments, Inc. v. Commissioner,* 76 TC No. 63, a New Mexico Ford dealer on the LIFO dollar-value, link-chain method was likewise required to adopt only two separate pools.

NADA supported the *Fox* case through its Legal Defense Fund.

Volvo plans purchase of White Truck operations

The Swedish company AB Volvo has preliminarily agreed to buy the *entire* heavy-duty truck operation of the financially ailing White Motor Corporation. Since September of last year, White has been selling assets and reorganizing debt structure under Chapter 11 of the federal bankruptcy provisions. White reportedly wrote off $8 million of truck debts when it filed for Chapter 11 protection, although its sales from U.S. truck operations in 1980 were near $400 million.

If the sale to Volvo goes through, White will receive less than book value for its assets and Volvo will gain entry into the competitive U.S. truck industry. The sale must be approved by the respective boards of directors as well as the federal bankruptcy court in Cleveland, Ohio.

White's line would complement the Volvo line and allow for greater market penetration. White also would contribute three truck plants and parts-production units, and the agreement would additionally give Volvo a new distribution outlet for its trucks via White's 240 dealers. Volvo has been distributing trucks through Freightliner Corporation, but this company was purchased in May by the West German firm, Diamler-Benz AG.

U.S. Supreme Court will not review McDonald's franchise agreement

The United States Supreme Court has denied review of the Fourth Circuit's decision in *Principe v. McDonald's Corporation,* No. 80-1402, U.S. Sup. Ct., *cert. denied,* 5/4/81. In this case, a franchisee alleged that McDonald's violated the antitrust laws through illegal tying arrangements. Specifically, the tying arrangement was alleged to be a requirement that a franchisee lease land and the restaurant building from Franchise Realty Interstate Corporation, a McDonald's affiliate.

The Supreme Court will let stand the United States Court of Appeals for the Fourth Circuit's determination that there was no illegal tie-in because the land and restaurant lease are part of a complete franchise unit and are not separate products. In affirming a district court's directed verdict for McDonald's, the Fourth Circuit concludes that the test of a franchisor's requirements is whether the challenged practice makes up an essential ingredient of the franchise system's success. Here, the court finds that the McDonald's system of leasing land and buildings is part of the franchise system's success.

A reader asks:

There is a big problem in my state with customers stealing leased or rented vehicles. The police say they can't help me because the customers have the right to possess the vehicles, and under state law, that doesn't amount to "stealing." When I ask for the return of the vehicles, these customers just take off with them. What can I do?

The problem you mention can be solved only through your state's legislature, because it involves provisions of your state's criminal laws. Dealers in states that do not have statutes to correct this problem find that their criminal laws leave gaps that hamper law enforcement efforts.

Enforcement in these states is hampered because of old-fashioned definitions of theft that require a criminal "intent to steal" to occur simultaneously with an actual "taking" of property. In these states, if a customer originally has lawful possession of property and later develops an intent to unlawfully keep a vehicle, the basic crime of theft cannot be established because "the intent to take" and the actual "taking" did not happen at the same time. These and other technical snags can be easily eliminated with appropriate legislation.

The American Car Rental Association in Washington, D.C. has done extensive investigation of this subject and may be able to provide useful information to your state association.

U.S. Supreme Court will not review decision of Colorado Supreme Court or dealer board

The United States Supreme Court has denied review in the case, *Michael Motors v. Colorado Dealer Licensing Board*. In his original appeal to the Colorado Supreme Court, the dealer opposed an order by the Colorado Dealer Licensing Board that suspended the dealer's business license for 17 days as a punishment for the dealer's refusal to honor a written agreement signed by the dealer's salesman and a customer. Believing the agreement was not valid, the dealer refused to honor it.

In upholding the licensing board, the Colorado Supreme Court ruled that the evidence sustained the board's finding that the salesman had apparent authority to bind the dealer to the customer's agreement. The failure to honor the contract was a violation of the state's Automobile Dealers' Act. Another challenge by the dealer was to the Act's constitutionality because it imposed sanctions on the dealer's noncompliance. The Act was expressly upheld by the Colorado Supreme Court. Finally, the dealer sought review before the U.S. Supreme Court, and that review was denied on March 24, 1981.

Court rules employer-subsidized cafeteria non taxable as wages

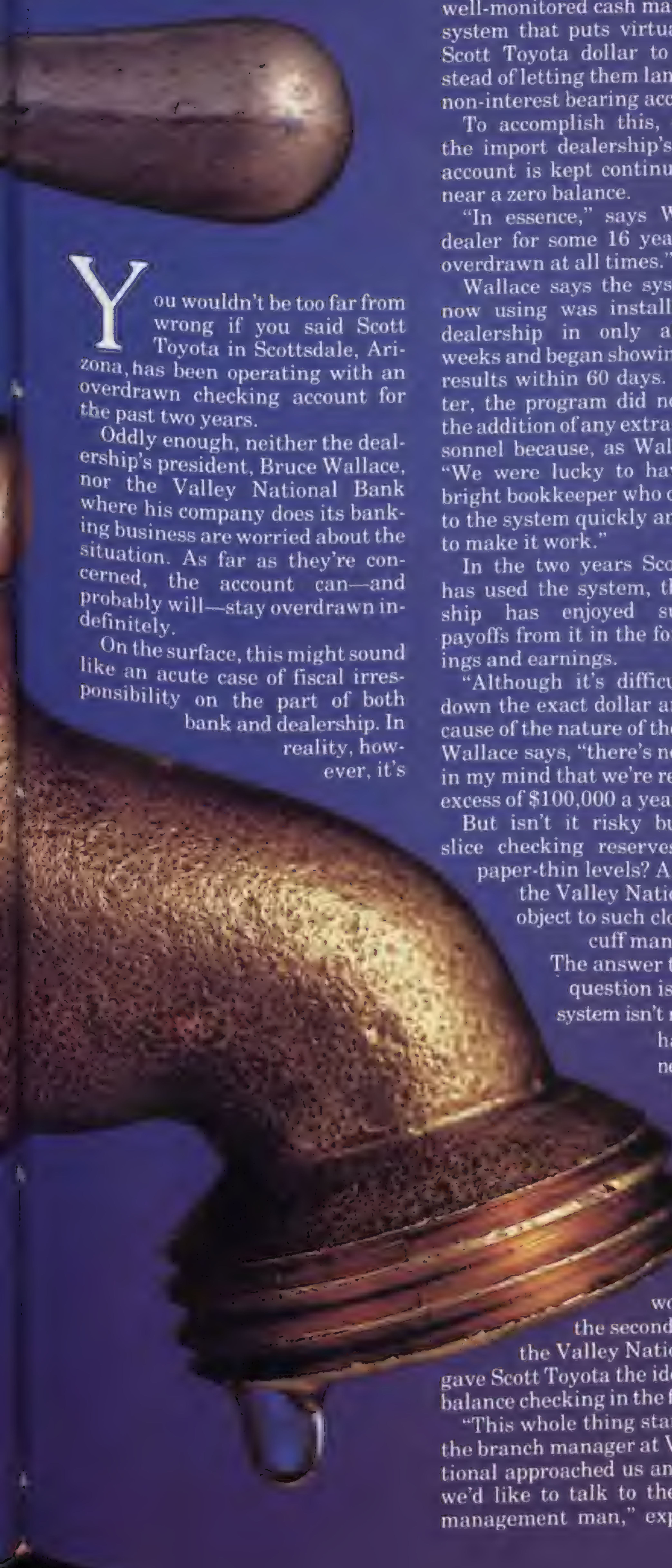
In an action motioning for refund of an overpayment of FICA and FUTA taxes in relation to an employer's providing meal allowances to employees, the Internal Revenue Service conceded that such sums did *not* constitute wages for the purpose of the employment taxes.

The employer subsidized meals for employees at the cafeteria on the premises. IRS sought to collect taxes on these amounts as constituting wages to the employees. However, in settling the case, it was held these meal reimbursements (a) formed no part of the employment agreement, (b) all employees were fully compensated for their services by the wages paid them, (c) full remuneration was paid each employee, whether or not the employee utilized the cafeteria services.

This ruling has implications regarding the use of demonstrators by sales personnel, and the IRS position of taxing the dealership for FICA and FUTA. *Harris Trust and Savings Bank v. U.S.*, U.S. Court of Claims, No. 105-79T, January 16, 1981. Æ

How To Live with an OVERDRAWN ACCOUNT...

And Love It



You wouldn't be too far from wrong if you said Scott Toyota in Scottsdale, Arizona, has been operating with an overdrawn checking account for the past two years.

Oddly enough, neither the dealership's president, Bruce Wallace, nor the Valley National Bank where his company does its banking business are worried about the situation. As far as they're concerned, the account can—and probably will—stay overdrawn indefinitely.

On the surface, this might sound like an acute case of fiscal irresponsibility on the part of both bank and dealership. In reality, however, it's part of a skillfully structured, well-monitored cash management system that puts virtually every Scott Toyota dollar to work instead of letting them languish in a non-interest bearing account.

To accomplish this, of course, the import dealership's checking account is kept continually at or near a zero balance.

"In essence," says Wallace, a dealer for some 16 years, "we're overdrawn at all times."

Wallace says the system he is now using was installed at his dealership in only about two weeks and began showing positive results within 60 days. Even better, the program did not require the addition of any extra office personnel because, as Wallace says, "We were lucky to have a very bright bookkeeper who caught onto the system quickly and learned to make it work."

In the two years Scott Toyota has used the system, the dealership has enjoyed substantial payoffs from it in the form of savings and earnings.

"Although it's difficult to pin down the exact dollar amount because of the nature of the system," Wallace says, "there's no question in my mind that we're realizing in excess of $100,000 a year from it."

But isn't it risky business to slice checking reserves to such paper-thin levels? And doesn't the Valley National Bank object to such close-to-the-cuff maneuvering?

The answer to the first question is "no." The system isn't risky if you have all the necessary information and the proper guidance to make it work. As for the second question: the Valley National Bank gave Scott Toyota the idea for zero balance checking in the first place.

"This whole thing started when the branch manager at Valley National approached us and asked if we'd like to talk to their money management man," explains the Scottsdale dealer. "We said 'yes,' and we were soon introduced to Jim Rauschkolb."

Rauschkolb is a veteran of 24 years in the banking business. For the past six years, he has been working as a consultant to Valley National's corporate customers in Arizona and the Rocky Mountain states, helping them analyze their cash flow. His formal title is vice-president, corporate cash manager, and it wasn't by accident that he became acquainted with Scott Toyota. It was just part of his bank's rather untraditional service to good corporate customers.

"I got a call from one of the account officers and he said Bruce was maintaining excess balances over and above that needed to pay for service charges for account activity and, in some instances, for compensating balances for loan commitments," Rauschkolb says. Going through the bank's branch manager, Rauschkolb called this situation to the dealer's attention and let him know something could be done about it.

According to Rauschkolb, Scott Toyota's position is not an unusual one. Many companies unwittingly keep excess funds in checking accounts, he says, simply because they lack the information and knowledge to monitor what their money is doing at any given time.

"Without an account analysis and instruction in how to read that analysis," Rauschkolb says, "these customers really don't know what their cash flow is on a day-to-day basis. They realize they're covering their checks. . . but they don't know they have *excess* funds. And these are just idle dollars that are lying in their account doing nothing."

The practice of piling up extra dollars in a checking account to "be safe" is one that's deeply rooted in the American psyche, according to the VNB vice-president.

"In the United States," he notes, "we're taught when we're very young that when we write a check, we have to have the money in the bank to cover that check. That *really* isn't true. When we write a check, we have to be able to pay for it when it *hits* our bank. The difference is in the 'float' or idle time of the money.

"What I tell our corporate customers is that by looking at an account analysis on a monthly basis,

you can tell if you have excess funds. Analyzing this information tells us if there is the required cash flow to enable the customers to utilize these excess balances. Then I show them how to monitor this cash flow on a *daily* basis."

In the case of Scott Toyota, Rauschkolb showed Wallace that there were idle funds, and advised him to pool all deposited funds into a single depository account and then open up a payable account that would be kept at a zero balance position.

"We call the dealership every morning at 8 a.m. and tell them exactly what their funds position is—how much of the balance is ledger balance, how much of it is collected, and what their float is," Rauschkolb says. "What they try to do on a daily basis is to arrive at an available funds position so that if there is going to be more money in the bank than is needed to pay for checks that will be arriving that day, those excess funds can be used (elsewhere). They can pay down their line of credit or they can invest in some kind of investment instrument."

By structuring payables correctly, the bank executive points out, a dealer can possibly have most of the dealership's checks paid on Monday, Tuesday, and Wednesday and then invest excess funds over the Thursday-Friday-weekend period.

"It's all in structuring the receivables and the payables of your business," says Rauschkolb. "Once you identify the dollar amount and the timing of your investment, you can go to any investment department in your bank and figure out what you want to do with it."

In Rauschkolb's mind, one of the best moves to make with excess dollars is to pay off today's sky-high floor plan interest whenever possible.

"There isn't anybody who loans money—particularly to an auto dealer— at a lesser rate than what an investment instrument yields," he stresses. "So the best earnings you can get is the savings on your interest expenses."

While on the subject of money loaned to dealers on auto inventory, Rauschkolb says he feels the banking industry has done "somewhat of a disservice" to car dealers by regulating them to just an inventory finance package. The problem, he says, is that all dealers are guided by specialists in auto financing who generally don't think beyond the dealer's inventory.

"From my standpoint, that's wrong," he says. "If they want to loan dealers money on their inventory, that's good, but they also should look at the net worth of the company and structure its liquidity base from the net worth side of the corporate and not just the inventory side."

Borrowing money on inventory is only one aspect of dealership

Jim Rauschkolb

cash management, Rauschkolb tells dealers. The other aspect is borrowing on net worth.

"The dealer has got to recognize that he or she has a *liquidity base* to cover liabilities," he says. "Most people think of a liquidity base only in terms of cash, but cash is only one area of the liquidity base. There are three other areas: accounts receivable, revolving lines of credit, and investment portfolio. Of course, for anything to be part of a liquidity base, it has to be available at the same time as the payable need arrives."

To illustrate the way Scott Toyota's cash management program works, and the way a typical liquidity base could come into play, Rauschkolb cited a hypothetical case:

"If Bruce Wallace writes $100,000 worth of checks today, the first thing I'd have him do is to monitor when those checks will hit the bank—a float disbursement analysis, if you will. Then he'll know what percentage of that $100,000 will hit the bank on what day. When he knows that, he can look at his liquidity base (i.e., cash, accounts receivable, investment portfolio, and revolving lines of credit) and see how much he will need from that to meet his needs.

"As an example, let's say $50,000 of that $100,000 will hit Bruce's account in two days. He looks at his checking account and sees there's $25,000 in it. He has to come up with another $25,000, and he doesn't have it in cash, so he turns to his accounts receivable to see what's available there. He finds he's going to be depositing $50,000 in checks today, but only $10,000 of that has a zero-based float. In other words, only $10,000 of the $50,000 he will be depositing is written on the bank he's depositing them in. That's immediate liquidity of $10,000, which, combined with the $25,000 in his checking account, is a total of $35,000. He now has to come up with another $15,000 to cover the $50,000 due to arrive in two days. That's when he goes to the other two areas of his liquidity base: his portfolio and his revolving lines of credit.

"If he has an investment instrument in his portfolio that is immediately maturable, he can pull that and use it. If not, he has to go to his revolving lines of credit and borrow the money.

"So you see, the structure of those four areas of his liquidity base is how he pays for his liablility on his payable checks as they come due. You have to monitor the float of the payable, and you have to realize the liquidity of the base. What I have done for Bruce is to give him the monthly and daily information of his cash flow so he can monitor on a daily basis his need, his availability, and the timing of the two to meet each other."

Can other dealers take advantage of the cash management system that has proved so beneficial for Scott Toyota? Bruce Wallace thinks they can, *if* the dealership is reasonably well-financed to begin with. He cautions, however, that this system is not a panacea for a business that's trying to pull itself out of fiscal hot water.

"If a dealer is already having financial difficulties," he warns, "he shouldn't think about jumping into something like this. He has to have pretty good profitability, and then he can use this system to *expand* on those profits."

Another essential factor in making this cash management system viable, Wallace points out, is close cooperation between the dealer

and the bank. Rauschkolb agrees wholeheartedly with Wallace on this point, but he emphasizes that the dealer must initiate the action in most cases. Few banks, he says, seek out corporate customers and offer to assist in getting such a program off the ground.

If a dealer's bank doesn't volunteer such information, Rauschkolb says it means that the dealer will have to change certain traditional attitudes about his banking relationship and will have to learn to ask for information most banks don't give their customers as a normal practice.

"It's surprising how much a bank will do for a good customer if that customer will just go in and ask for it," he says. "The problem is, most people hesitate to ask a bank for services that aren't normally offered...and, in this case, a lot of dealers really aren't sure what to ask *for*."

Rauschkolb has been busy, recently, briefing dealers in Wallaces's NADA Performance Analysis Group on this cash management system and, in June, held a full day's seminar on the subject.

"I guess there are going to be at least 20 banks around the country that will be getting questions about this sort of thing," he mused.

The first requirement in establishing a cash management system, according to Rauschkolb, is to get the bank to give you a detailed account analysis on a monthly basis. Without that, he says, you won't know what your funds position is.

"If your bank won't give you an analysis of your account, you have no idea if you're getting your money's worth or not from your checking account funds," he explains. "A lot of banks do give the analysis and this type of information, but a lot of them don't. A lot of them don't know how."

To make intelligent decisions with your money, Rauschkolb adds, it's *essential* to know where you stand with your balances. He cited one rule-of-thumb that usually serves as a good indicator about cash flow: bank service charges.

"If the bank isn't charging you anything," he says, "I can tell you you're losing money...that's your first clue. If you're not getting service charges on your account, then I'd ask for an analysis of the account. If a service charge *is* being charged, you will know that you don't have enough balances to pay for the services, and you can be fairly certain you're doing a pretty good job with your cash flow."

Another important element in maintaining a successful cash management program, Rauschkolb says, is cash forecasting.

"You need to do cash forecasting so you'll know not only how much money you have on a 24-hour basis, but also how much is going out in that same period, so you can tell if you have an excess or a deficit cash position. That way, you'll know if you need to borrow or if you need to invest. You'll also be able to tell how *long* you need to borrow for or how much time you'll need to *invest* for."

"The system isn't risky if you have the proper guidance to make it work."

Knowing *exactly when* to borrow funds also is important, the Arizona bank official stresses. Many corporate customers borrow too soon, he says, and end up paying unnecessary interest charges.

"A lot of people go into their bank and say, 'I need to borrow $50,000 and I need it Wednesday.' Well, even if you think you need it on Wednesday, you probably don't *really* need it until Friday because of the float," he says. "And many times the banker will say, 'O.K., we'll give you the $50,000, but let's just put it into your account today,' and this may be three or four days before the Wednesday, even. What happens—and a lot of people do this—is that you end up, first of all, paying interest at prime plus one or two points for several days until those checks hit the bank. Second, the bank will use those free funds because you aren't using them. So the bank makes out both ways."

Turning to a dealership's investment portfolio, Rauschkolb says investments should be tiered to possibly include a business savings account, some 30-day certificates of deposit, and some short-term "float" investments.

"One good investment might be a business savings account," he says. "I appreciate that a business savings account is only paying 5¼ percent right now, but that's 525 basis points more than zero. And if you leave your money in a non-interest bearing checking account, and you don't need the money for activity, that's what you'll be getting—zero. So you might keep a small amount in such a savings account, say, $25,000 or $30,000. I'd never keep much more than that in one.

"Then, you might have some 30-day certificates of deposit, but that should just be excess, money that's not needed except for tax payments or to purchase cars in 30 days or so. Remember, 30 days is long-term in cash management; short-term would be 24 hours.

"For these short-term investments, a dealer can get repurchase agreements, banker's acceptance, commercial paper, or federal agency issues. There are many investments that can be structured for your corporation on a one-, two-, three-, four-, five-, ten-, fifteen- or twenty-day basis. For a float investment, you should structure them somewhere between one and seven days."

Rauschkolb advises dealers interested in developing a portfolio as part of a cash management system to visit their bank's investment department for assistance. Utilizing a dealer's account analysis, the bank's investment specialists should be able to offer valuable guidance.

Scott Toyota, a dealership that sold approximately 2,000 new cars and 1,000 used last year, is proof that all the parts of this type of cash management system really can fit together and work for the financial well-being of the business.

"It's a good program any time," says dealer Wallace, "but as the price of money goes higher, it becomes more valuable than ever."

But what if a dealer's bank can't or won't provide all the necessary parts to make it work? Jim Rauschkolb's advice on that situation is simple and to the point: "Change banks or learn to live with the situation you now have." Æ

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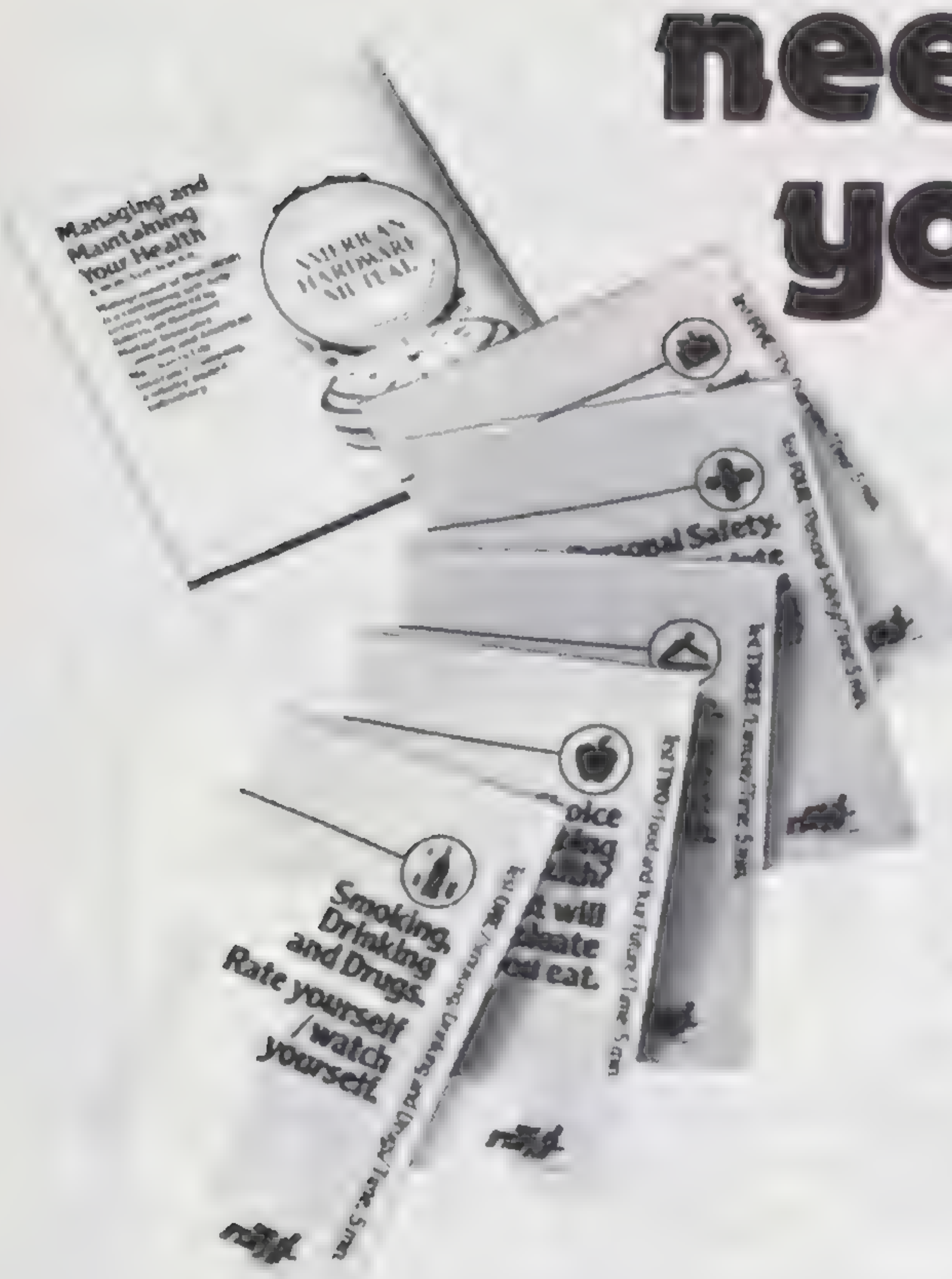

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ECONOMIC  OUTLOOK

Variable Rate Vehicle Loans

The unprecedented gyrations of the monetary aggregates and the resulting record-high interest rates undoubtedly played a significant role in decimating the new vehicle market during 1980. When the prime interest rate exceeds a state's usury ceiling for retail loans, it becomes unprofitable for lenders to make new vehicle loans. As a result, the supply of loan money available is cut sharply. Lenders prefer to make money available to commercial borrowers, since usury ceilings do not normally apply to non-retail loans. When lenders *do* provide money to the retail market, they are extremely selective, lending only to the most credit worthy, in an attempt to eliminate losses due to default.

When the prime first exceeded 20 percent during the spring of 1980, an NADA survey of dealers indicated that the turndown rate on retail vehicle paper exceeded 40 percent. In the fall, when prime again climbed to record levels, the turndown rate exceeded 30 percent. This lower turndown rate may be in part attributed to several states having raised their usury ceilings.

Therefore, it is not surprising that the percentage of the market for new vehicle loans supplied by commercial banks fell almost 20 percent during 1980. In fact, when the prime hit new record highs late in 1980, the commercial banks' market share of new vehicle loans declined more than 70 percent from the previous decade's average. As commercial banks withdrew from the market for new vehicle loans, the captive finance companies stepped in to take up *some* of the slack. In fact, the captive finance companies increased their market penetration during 1980 by an average of 50 percent.

Beginning January 1, federally chartered savings and loan associations were permitted to make retail consumer loans. While there has been little evidence of savings and loan associations entering the market, the potential competition they could provide should help maintain market competition.

Another innovation in retail auto financing that has begun to impact the market is the variable rate consumer loan. Banks in Boston, Indiana, and Tennessee already offer these loans, and the Bank of America is studying implementation seriously. The variable rate consumer loan is analogous to the variable rate mortgage (Æ, June 1981). Variable rate loans can be used to finance the purchase of virtually any consumer durable.

The interest rate for this type of loan can be linked to any index of prevailing interest rates. A Tennessee bank uses what it calls a "consumer prime rate" based on the previous month's average rate on six-month certificates of deposit. Other banks tie their variable interest rate to the commercial *prime* rate.

Changing monthly payments to reflect short-term fluctuations in interest rates is particularly burdensome on relatively short loans. Banks see changes in monthly payments as the "most unpalatable part" of any variable rate loan. Therefore, monthly payments can be expected to remain constant, with the *term* of the loan changing to reflect changes in the interest rate. For example, an initial 48-month new vehicle loan would be paid off in more than 48 months if interest rates rise, and less than 48 months if interest rates fall. By shifting the risk to the borrower, VRLs thereby lead to a greater degree of loan money availability.

Innovative financing such as the variable rate loan is likely to become increasingly popular with lenders as long as uncertainties about future interest rates continue: VRLs should make banks less reluctant to make new vehicle loans, and that will benefit dealers. However, it will be necessary to *market* these loans to overcome initial consumer resistance, and dealers making them will have to negotiate a *rate differential* with their banks, rather than the fixed rate currently negotiated for loans generated by the F & I departments. Æ

This column is prepared by the Economic Analysis Dept. of the National Automobile Dealers Association. For further information or questions concerning the items appearing in this space, write: **Economic Outlook, Economic Analysis Dept., 8400 Westpark Dr., McLean, VA 22102.**

MR. DEALER: When you make American Warranty will be there

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The service contract business is a rapid-growth industry. American Warranty Corporation has territories open for qualified agents.

an interview with

Pierre Brault

It's been very obvious the last several years that the U.S. is far from the only place where the automobile is a way of life. Many of the world's developed nations, and many other countries just beginning to reach out for an industrialized identity, have automobile plants and a burgeoning network of car and truck dealers.

Does everyone in every nation handle the retail end of the business in the same manner? We didn't think so, and it seemed to us that it would be interesting to explore how the experiences of dealers in a country very similar to ours—Canada—differ from what confronts us here.

Consequently, we sought out Pierre Brault, a Lincoln-Mercury dealer in Quebec who is also the 1981 president of the Federation of Automobile Dealer Associations of Canada, a group very similar in function and purpose to NADA.

We talked with him in Toronto, the site of FADA's recent Industry Relations Committee meeting, and as the following pages will prove, much of what resulted was very interesting, for a number of reasons.

Brault is a small to medium-volume dealer who often handles about 800 new cars a year, but like all too many retailers on both sides of the border, he has seen that statistic fall quite a bit—down to about 500.

He also deals in a metropolitan market in a large country with a small population, and we think you'll find his perspective at the same time familiar and unique.

AE: Is it correct to say that FADA is not technically an association of dealers?

Brault: Absolutely correct. This is a federation, the Federation of Automobile Dealer Associations. Our members are actually the provincial (state) associations, not the dealers themselves. In your country, I believe NADA has a direct dealer membership, as do the state and local associations. You are separate, but you communicate together, and you have a good relationship. In our case in Canada, when a dealer becomes a member of his local association, he automatically is a member of the provincial association, and also of FADA.

AE: What is your own provincial association called?

Brault: Now that is kind of complicated, because the name has been changed for several reasons—political ones, I guess. The old name was PADA, Provincial Autombile Dealer Association. This now is being changed, to try and improve our image because the dealers in Canada, or at least in Quebec, have not rated too highly with the public.

AE: Why?

Brault: Oh, I guess there are probably a lot of reasons. Basically, you buy a car a lot more times than you call a plumber, or buy a house. So, buying a car is very emotional. It also, or it used to be, the second most important investment of the average citizen. So, we've always been up there in front of the public, and I guess for the press it's a good subject too. Our image has improved recently, but it's still not that good. We have done a study on the subject, and it seems it is not the franchised dealer as a whole who has given us a bad image, but people don't readily distinguish between us and the used car lot, the fly-by-night operation. All they know is, the guy's selling cars. Our people have complained to the government that we've been getting an awful lot of consumer protection law. But as far as the government's concerned, we're the bad guy. So, as just one phase in our effort to improve the situation, we thought we would change our name to: Corporation of Professional Automobile Dealers. We need, very much, to pay more attention to how the public perceives us, and to what we can do about it.

AE: How many dealers are there in Canada? And how many of them are FADA members?

Brault: There are probably about 3,200 or 3,300 dealers in Canada, and we as an association have over 2,800 members.

AE: All of them new car dealers.

Brault: Strictly new car dealers. We are not involved with the exclusive used car dealer in any way.

AE: Are the main manufacturers here in Canada the same as the ones in the States? Do General Motors, Ford, and Chrysler, rank one, two, three in that order?

Brault: Yes, definitely. They are also known as the "Big Three" here, and I'd say they have roughly the same percentage of the non-import market that they do in the U.S.

AE: Toyota and Datsun: Are they as big up here?

Brault: I believe the biggest one, market-wise, in Canada is Honda. Now, in Quebec right now, the number one is Toyota and then it's Datsun. And Mazda is coming up very quickly. But across Canada until lately and possibly still to this day, Honda is number one among imports.

AE: What would you say the Canadian dealers' biggest or most nagging problem is?

Brault: At the present time, I would think it is probably the same thing as what you find in the United States: Very high interest. Floor planning is killing us. But, I think what is making us very nervous right now is the possibility of the Japanese dumping products on us. In the U.S., the Japanese have agreed to limit their imports into your country. In Canada, though, the Japanese say, from what I read, that the story is different, because they have to pay a tax of 13 percent. So far, our Industry Minister, Herb Gray, is not too voluble on the subject. But it is really a concern, because if they dump this additional product on us—the cars they can't sell in the U.S.—it would kill us. For now, though, there's very little we can do other than monitor the situation and hope we can fight it better than we've fought the high interest problem.

AE: What kind of floor plan interest rates do you have right now, and what kind of interest rates confront your customers?

Brault: Last night when I left the office (May 21), the price to the customer, in my case, was 19¾ percent. On our inventory—and this is kind of ridiculous—most of us pay prime plus 1 percent.

AE: That's worse than the States.

Brault: Yes, I think it is.

AE: Are you having a lot of problems with the other aspects of inflation here?

Brault: It's been tough to handle. I haven't checked lately as to how it compares to the States, but we're now dealing with an inflation rate of 12.9 percent.

AE: That's a little more than us.

Brault: On the whole, having the States as a neighbor is a great asset. But, conversely, being a very small country as far as population is concerned creates problems. One of those, I think, is that our proximity to the U.S. has given our people the feeling they can really live it up as so many in America seem to. It just doesn't, though, seem we can afford that attitude—it produces higher inflation, and expectations get far beyond reach. This is probably the gut issue right now—our prime minister and other people from the government are saying, "Look. You have to pull back." But people don't seem to react to that. I was speaking to some people from one bank not so long ago, and though I'm almost scared to say it, they say interest rates this summer could go as high as 29 percent.

AE: I can't imagine that.

Brault: Well, this is just talk across the table, and so, such a happening is just a possibility. But not so long ago, we probably would have said. "That is ridiculous." But today you say, "Well, possibly."

AE: In face of all this, you say your own business has gone down maybe 40 percent?

Brault: Yes.

AE: Is this pretty typical throughout Canada?

Brault: I would think so. Numbers vary, but a drop of 25 percent and more is very common. In Montreal, for example, Ford Motor dealers are down anywhere between 35 and 45 percent. It's very difficult for us as retailers. How can you plan? If I can remember back to when I started as a dealer, if you didn't succeed, you just figured it was because there was something you weren't doing right, or you weren't working hard enough. But now, although you work as hard as you can, it's beyond you. And it is very difficult to keep your perspective or your morale because you don't really know what to do. In the old days, you had to be a good manager, and that was it. Well, it would appear you still have to be able to manage, but to put it mildly, you could be a very good manager today and go out of business anyway, because there are too many outside factors that you don't control. You just don't have a hand on them. It's probably because the crisis is of an international scope.

AE: Are dealers going out of business up here in droves?

Brault: I have no figures, but it would appear to me that it's been, so far, a better situation than in your country. I don't think our mortality percentage is as high. But as for the year to come, I don't know. We all felt 1980 would be extremely rough and then, thereafter, somewhat easier, But, it just so happens that '81 has been equally as tough. So, I don't know. This game is not over yet.

AE: How would you characterize the government's attitude here in Canada toward small business and toward the automobile industry? Antagonistic? Supportive? Hands-off?

"Our regulations are not as stringent."

Brault: I would be inclined to believe that our government to a certain extent does favor small business. I think one of the proofs is the battle we won last year when the Bank Act came up for review.

AE: Can you tell us something about that?

Brault: Our banking system is a wee bit different than yours in the States. The regulations are *extremely* rigid, and in actual fact, we have really only five major banks in Canada. Every ten years, the act that controls our banks' operation has to go to Parliament to be reviewed. At one point, recently, the banks asked the government to be permitted to go into the leasing business. You can imagine what would have happened to the car dealer if this business had been lost to us. So, we made a strong presentation to the government, and we won our case. The government refused the bank the permission to go into leasing. I think that showed that yes, in all fairness, they are concerned with small business and its people. Mind you, there are also very strong and weighty social measures in this country—we have medicare, and many others. But it doesn't change the fact that we get fairly good treatment.

AE: Down in the States, a lot of laws were passed in the last 10 years concerning emissions and fuel economy, and safety, and so on. Has your government done much the same?

Brault: They have, but we are probably five years behind you. Our regulations are not as stringent. In the United States, for instance, the Lincoln this year has a 302 engine with fuel injection. We have a straight 302 engine with no fuel injection, nothing. Some of the cars produced for our country would not pass inspection in yours. I guess we stand a chance to eventually get regulations akin to yours, but for now, it's a little bit better here.

AE: If dealers want to fight some kind of regulation in the United States, it seems they have to lobby with the White House, they have to lobby with Congress, and they have to lobby with regulators—NHTSA, EPA, and so many others. Is your government set up so that you have unelected

bureaucrats making those kind of decisions?

Brault: Well, as you know, our government system is very different than yours. You have the presidential system and we have a Parliament, so the scheme of things is different.

We find that one of the most efficient ways for us to get our message through is through our members of Parliament. That *is* effective, but over the years, we *have* begun to open up good communications with bureaucrats of higher echelons—the deputy ministers, and so on.

AE: So FADA is a fairly respected and known force right now?

Brault: Well, I can tell you that after we won this review of the Bank Act, some bureaucrats were just stunned. They never thought we would pull it off. But, we did. It's not a matter of war, it's just a matter of being fair and fighting for survival. There's always a lot of work you can do. It's an on-going thing. You can's sit and say, "Well, we've done it."

AE: With a small population and a large land area, what does that mean in Canada in terms of distribution problems?

Brault: You're talking, for example, about the dealer getting his material?

AE: Yes.

Brault: Well, though I'm not an authority on that, I don't think there's much of a problem in spite of the distances that are involved for dealers in some parts of the country. First of all, we get most of our vehicles from the States, and the cars go back and forth with relative ease. Ford's St. Thomas plant, for instance, the one that's building the LN7, I believe, will ship 80 percent of its production to the States because we can't absorb it. We probably can handle only 20 percent. So, the excess is being shipped throughout the U.S. General Motors has a plant near Montreal, and I understand that most of *their* production is being shipped through New England and probably to several other states.

Don't forget, we have this auto pact between the two countries.

AE: Can you explain what that is?

Brault: Well, I think that some

"I can buy a bird for $50 that says 'Yes, sir.'"

years ago, our Ford Motor Company, for one, was almost completely divorced from the States. That is, it was very much an autonomous company. Of course, it was owned by Ford, but the Canadian president, according to my understanding, was really running the show, as was the chief in Europe.

Don't forget that maybe 15 years ago, before the auto pact came along, we couldn't sell a Lincoln, for example, because, being built in the States, if we did import the car, it would cost a horrendous amount of money. As a result, the only vehicles we were selling were cars that were built in Oshawa or Oakville, or Windsor, which, notably, is right on the other side of the river from Detroit. But once this situation was worked out, it then became more logical for the manufacturer to pay more attention to distribution logic, and less to politics.

Today, the cars we get are from several plants. I can get a truck from Oakville, I can get a Zephyr from Metuchen, I can buy a heavy-duty truck that will be built in Louisville, Kentucky, and I can get another car, a Mustang, being built in Dearborn.

AE: So, today, a car will cost the same no matter where it's built?

Brault: Well, no, but the price difference is getting closer and closer. The rest is taxes that I guess we have and you don't on the other side of the border. But the difference has been evened out.

AE: What's the factory relationship like here for the dealer? Do you deal with Ford of Canada directly, or do you have to deal with Ford U.S.?

Brault: We deal with Ford Canada. And I believe the GM dealer likewise has to deal with GM Canada. The same with Chrysler. In our day-to-day business, we don't deal with the U.S. at all. We are appointed by the Canadian company, and we deal with them. Everything goes through the Canadian office.

AE: As NADA's Joe Barry seemed to point out in his remarks to your Industry Relations people, sometimes dealers in the States seem to feel that they're on the outside, the step brothers, in effect, of the factories who don't want to hear their complaints. Do you get that same sensation up here even though the Canadian industry is so much smaller, or is your relationship somewhat closer?

Brault: That's a loaded question. Within the context of our Canadian company's authority, our relationship with the manufacturer is excellent. Dialog is no problem. But where I think the problem may come about is when the issue at hand is a vital one or something very, very important to Detroit. You have to assume that in that situation, the point has to be cleared by Detroit, because as I've been trying to say, when you get down to brass tacks, the head office *is* in Michigan. Sometimes, we may feel a little bit left out, a little bit frustrated, in having to say to ourselves, "Well, I cannot be difficult with a gentleman who is really trying his best, but really, does he or does he not have the authority in this instance?" Such musings do not solve the problem.

In the case of Ford Motor Co., I think it treats its dealers reasonably well, and maybe better than that. If it thinks a dealer perhaps should be cancelled, it is very fair in setting up what almost amounts to a court system, where it will ask a dealer to act on behalf of the dealer who is in danger of being terminated, and he is heard out. The company is pretty fair in that regard.

As far as warranty claims are concerned, periodically, things are slow. But normally, the channel we have via the dealer council is

(Continued on page 38)


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service contracts

potential profits in preventive medicine

by Tim Dowling

Many customers aren't looking at cars just as "wheels" when they visit dealerships these days; they are looking at them as investments. In the eyes of these customers, the cost of purchasing and servicing an automobile has reached the point of a major purchase, and they want to do everything possible to maintain their car's value and minimize future repair bills.

Enter the service contract, a form of preventive medicine for cars that came into vogue during the '70s. Service contracts are a written agreement providing for a regular program of check-up and maintenance on new and used cars. Whether offered as supplemental coverage on new cars or as protection on used ones, service contracts are becoming more and more popular, and enterprising dealers have found them to be a lucrative source of revenue.

When service contracts are sold and administered properly, they can generate extra profits, boost business, and build customer loyalty. An ill-advised and poorly run program, on the other hand, can reduce cash flow, damage customer relations and, in some cases, result in costly litigation. More than 250 firms are in the business of supplying service contracts on automobiles, and that number is growing every day. Before any dealer gets involved in a service contract program, he should examine the wide variety of coverages, terms, financial structures, and administrative arrangements that are available to choose the right program for his particular needs.

Basically, there are three types of service contract programs: factory-backed, self-administered, and insurance-backed. Many dealers only offer service contracts provided by one of the automakers. These plans are sold on both new and used cars, and coverage ranges from two years/24,000 miles to five years/50,000 miles. All of the factory contracts cover the engine, transmission, and drivetrain. And all but AMC and

Chrysler cover some of the steering, front suspension, electrical, air conditioning, and brake components.

Many dealers prefer these plans because of the support and promotion factories provide and the capitalization they have at their disposal to back up claims. Other dealers have started independent programs, either exclusively or in tandem with factory plans, because of their profit potential and autonomy.

A self-administered plan is one that is financed and managed by the dealership itself. Some dealers have in-house programs that are entirely self-sufficient. Other dealers hire consultants to provide point-of-purchase displays, employee training, forms, recordkeeping, and accounting services. These consultants usually charge from 7 to 10 percent of the suggested retail price of each policy for their efforts. Regardless of the arrangement, the dealer assumes all responsibility for the contracts in a self-administered program.

In an insurance-backed program, a company other than the dealership or the factory supplies the contracts. This third party assumes responsibility for honoring all the terms of the service contracts and their attendant liabilities. Under this type of set-up, claims are paid by the company, *not* the dealer. The dealer acts solely as a middleman: For each policy he sells he receives a specified commission. The third-party company actually runs the program and handles all the necessary paperwork, financing, and resolution of claims.

The Implications of Magnuson-Moss

Whenever dealers get involved in service contract programs, they must be careful to comply with state and federal regulations regarding warranties. The most important of these regulations is the Magnuson-Moss Warranty Act of 1975, which requires suppliers of service contracts to specify on paper what repairs are covered, what repairs are not covered, what the customer's responsibilities are, and how to go about getting repairs performed. Transfer, cancellation, and refund policies must also be spelled out in simple and readily understandable language. The act does not require written warranties to be offered; but if they are, they must conform to coverage and disclosure requirements.

Written warranties must be labeled either "full" of "limited." Of all the U.S. automakers, only American Motors offers a "full" warranty. Under the terms of the Magnuson-Moss Act, any manufacturer or retailer who provides either a "full" warranty or a service contract within 90 days of the sale of a new or used car is responsible for all implied warranties. Suppliers of service contracts must look to state law to see in what cases implied warranties may be excluded or modified.

"When dealers get involved with service contracts, they must be careful to comply with state and federal regulations."

Implied warranties concern the merchantability and fitness for use of products. Goods are considered merchantable if they are fit for ordinary purposes, properly labeled, and of average quality. The Uniform Commercial Code, which is law in the District of Columbia and every state except Louisiana, stipulates that an implied warranty is attached to the sale of every product unless specifically excluded in writing. The length of implied warranties varies from state to state, and can extend as long as four years for major failures, such as a blown engine.

Some manufacturers escape the liability of implied warranties by offering "limited" warranties. GM, Ford, and Chrysler all offer some form of a no-charge, 12-month/12,000-mile limited warranty with new car purchases. The use of the word "limited" enables these suppliers to limit the duration of implied warranties to the length of the contract. Twenty-five states have some sort of provision against the limitation of implied warranties, and seven states (Kansas, Maine, Maryland, Mississippi, Massachusetts, Vermont, and West Virginia) prohibit any limitation.

What does this mean for the dealer who is considering starting a service contract program? The complexity of state and federal regulations regarding warranties and service contracts demands that dealers have a clean understanding of all risks and liabilities before launching a program. Dealers should seek legal counsel to protect against potential problems with consumers, lending institutions, the courts, and the federal government.

The key factor determining a dealer's liability is whether or not he is the supplier of the program. Dealers selling manufacturers' or third-party contracts are safe from most liability regarding implied warranties because they are not the supplier. In these cases, the outside party is responsible for approving and paying claims; the dealer's only responsibility is to perform designated repairs.

The burden of liability *does* fall on the dealer who runs an in-house, self-administered program. Here the dealer is the supplier, even if he has contacted an outside firm to provide record-keeping and other services. Because of the large amount of capital and other resources needed to run self-administered programs, they are usually only offered by high-volume dealers.

But high volume shouldn't be the only criteria. Before any dealer starts an in-house program, it is important to know the financial responsibilities that are involved. A dealer should look at the rate of repair for the makes and models he sells to get an idea of how much money will be needed to run the program and to protect against being caught short-handed.

Ongoing Financial Responsibilities

In-house programs also carry a certain amount of continuing liability—an obiligation on contracts already sold. If a dealer starts sell-

ing five-year/50,000-mile contracts in June of 1977 and decides to terminate the program the following June, this does not relieve him of responsibility for those policies. Even though he is no longer offering the contracts (nor taking in revenue from their sale) he must honor all contracts already sold for the duration of the term—in this case, until June of 1982.

Dealers who are considering third-party contracts must also do their homework. Often dealers run into problems with small service companies that fail to keep adequate reserves. Even though dealers are usually not liable for fulfilling claims in the event of a third-party bankruptcy, they should do all they can to safeguard against legal action and customer complaints, nonetheless. Dealers should examine a company's financial structure to see if it has sufficient insurance or other financial reserves to back up potential claims. Many service contract firms are either owned and operated by a large insurance company or underwritten by one. If a company doesn't carry insurance, make sure it has some type of escrow account for emergency claims.

Many insurance companies also offer a different type of service plan called "mechanical breakdown insurance" to provide consumers with protection against auto failure. A variety of mechanical breakdown plans are offered, depending on the needs of the buyer. As with other third-party service programs, dealers are given a commission for each policy they sell.

In some states, mechanical breakdown plans may be regulated as insurance and thus would not be subject to the requirements of the Magnuson-Moss Warranty Act. Like other insurance policies, mechanical breakdown plans may be cancelled and rates increased at the discretion of the provider.

Service contracts and mechanical breakdown insurance plans are a profit center dealers cannot afford to overlook in the years ahead. A service program finely tailored to the needs of each individual dealer offers new opportunities to increase sales *and* consumer satisfaction. ÆE


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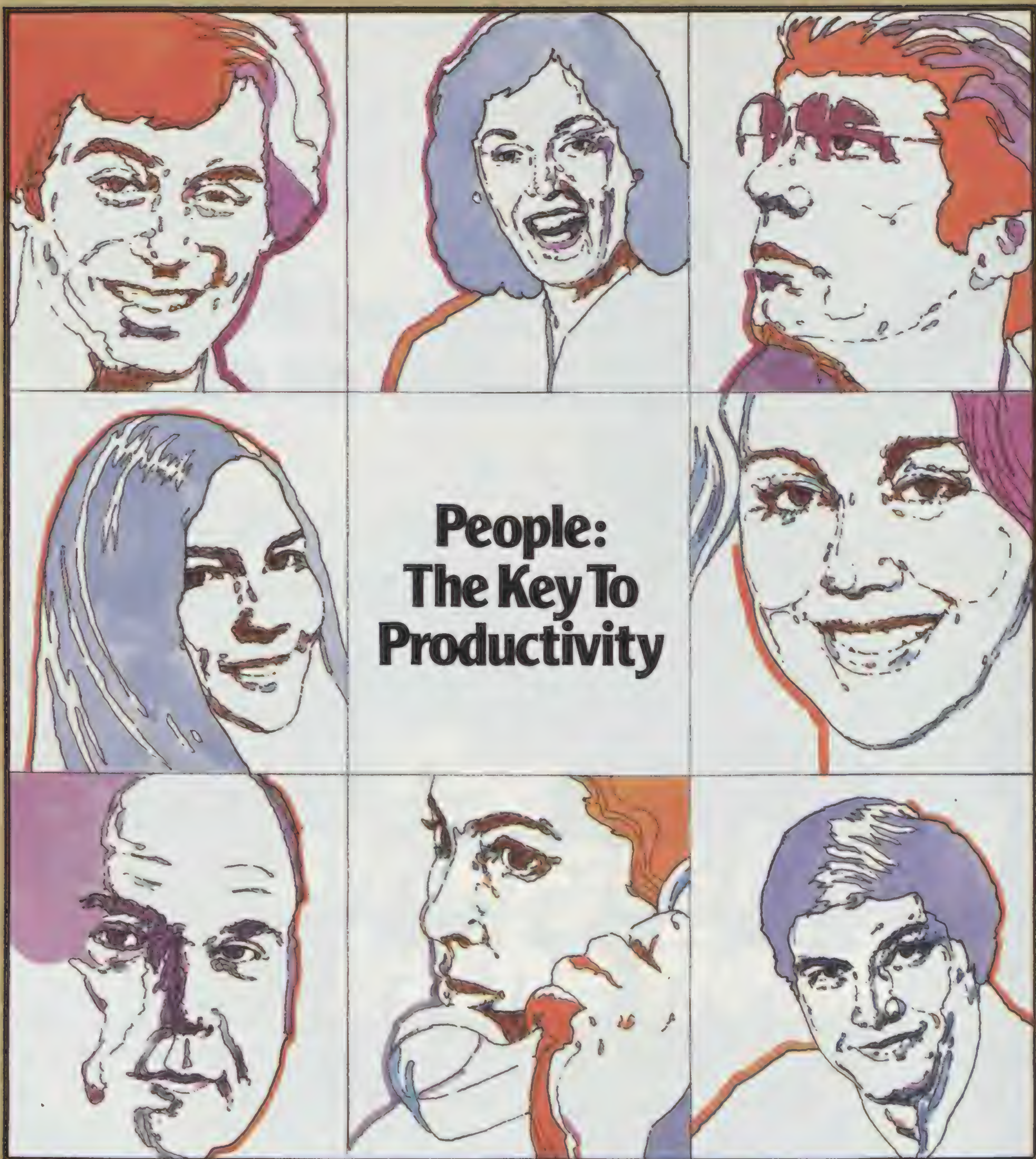

People: The Key To Productivity

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Most of the prescriptions for curing our current economic ills will take years to work out. But there is one measure that we can apply immediately. We can resolve, today, to make better use of the most valuable resource we have—our human resource. As always, the final answer is people—what they are able to contribute, what they want to contribute, and what they are allowed to contribute.

Jackson Grayson, a leading analyst of productivity, has said that our greatest gains in productivity will not come through capital investments, but by making better use of information technology and developing new ways of working with employees. He says that when managers comment that that sounds too soft, he tells them to look at the way Japanese managers behave toward employees—then look at their productivity figures. We already know something about the employee relationships that have helped the Japanese excel. But we need to learn a great deal more and apply the lessons more vigorously. The learn-

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THE BIG RIGS

Pat Close

We've come half way through 1981 and, from where I sit, it appears the truck industry is still firmly entrenched in a market slump. The industry people and dealers I talk to agree sales will continue to be slow for the remainder of 1981.

In looking over various forecasts I've received, a few caught my attention. One, a Department of Commerce report, stated trucks would finish the year just slightly ahead of 1980 levels while trailers would show a 12 percent increase. These government forecasters covered themselves by saying 1985 would be a peak year, with sales of trailers at a 224,000 level and trucks over 10,000 GVW at a 550,000 level.

"The government's forecast neglects to say how many of us will still be in business in 1985."

The only problem with this forecast is it neglects to say how many of us will still be in business in 1985. I have to wonder if the nation's truck dealers can survive if the hostile economic condiitions, which the government is primarily responsible for creating, continue. Four years is a long time to wait!

Fortune magazine recently corroborated the dismal news that confronts us with an article on what industries did best and worst in 1980. Motor vehicles showed a dramatic decrease in sales, profits, and return to investors. Two truck manufacturers—White and International Harvester—appeared among the "five worst firms" listed in several categories.

At least these companies apparently are not dying on the vine. Already in 1981, we have seen Volvo offer to purchase White, and International Harvester scramble to restructure its debt. Industry sources appear confident that both companies will make it in 1981 and the rest of the decade.

At the recent ATD convention in Reno, Wall Street economist Gary Shilling told dealers not to expect 1981 to be anything but a fair year. I've heard similiar messages given to the trailer and body equipment people, and they're not wrong: recent conversations I have had with dealers bear that out for the first half of 1981. Truck sales from January through March were extremely slow. April began to pick up and carried over into May, right up until interest rates began to rise. Now June looks pretty flat —truck sales are down 8 percent from 1980.

I would have to say the remainder of 1981 will be much of the same. The big "ifs" are the economy and the federal government. Until we get both of them back on track, business will remain slow.

What does this mean for dealers? I would use the word "caution." Cash management, inventory restraint, and constant monitoring of the market are going to be as important as ever. There has been talk of "pent-up demand," but financing is still a problem. For truck dealers, 1981 is not going to be a good year—just fair.

"Cash management, inventory restraint, and monitoring of the market are going to be important."

Truck dealers will have to keep doing the things that enabled them to survive 1980. Watch the balance sheet, hustle on sales, and keep after the parts and service business. Relief is on the way, but don't expect the troops to arrive "en masse" until next year. We're half way through 1981. If we can weather this storm, 1982 may be a blockbuster for all of us. Æ

This column is prepared exclusively for **automotive executive** *by Patrick R. Close, director of NADA's American Truck Dealers Division. All inquiries should be addressed to:* **Pat Close, director of ATD, 8400 Westpark Dr., McLean, VA 22102.**

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ing process starts with the recognition of some basic truths about people, how they feel, and what makes them want to contribute.

Today's employees want more than good pay and benefits. Fair and adequate compensation, for them, is a must, but also just a basic expectation. Most did not experience the Depression of the 1930s; they grew up in a climate in which adequate income is the norm—a "given." If pay is inadequate or inequitable, it can be a demotivator. But, above that level, pay itself is not motivation.

Employees today have an acute sense of their own worth as individuals. Most of them were growing up and maturing in the '60s and '70s, the period when the individual was rediscovered. The slogan of those years was, "Do your own thing." Mid-life career changes became more common and women took up careers as a route to self-fulfillment. For the last 20 years, society has emphasized that individual wants and needs are the absolute measuring stick. And employees insist that a good business deal must be a good deal for both the employee and the company.

Well, then, what is a good deal? What do employees want today? What turns them on? How do you motivate the workers of the '80s?

First of all, motivating this sophisticated and well-educated work force demands the recognition by management that employees are intelligent, dignified, and responsible. They are able to contribute and they *want* to contribute. On the job, they are looking for self-fulfillment—the realization that they are making a real difference, that their best talents are being used, and that they can leave work at the end of the day with the good feeling that they accomplished something worthwhile. These values are the ingredients of self-esteem, which we will do almost anything to achieve.

The need for self-esteem means that smart managers today don't have to motivate people; all they have to do is create the working conditions and climate that will permit people to motivate themselves.

To create a productive climate at Honeywell, I started a communications program we call "The Winning Edge." The program, now in its third year, lets Honeywell people all over the world know that they are our winning edge. If you ask most of our people, they'll tell you that it is an employee motivation program. But in a real sense, it's a *management* motivation program. Its real purpose is to motivate managers to meet with people of their organization at every level, to talk with them, to get to know them. Probably the most important thing the program is doing is getting top division management down into the factory to meet the people who wire the circuits, run machines, and sweep the floor. And if the program didn't accomplish one more thing than that, it would still be worth many times its cost.

The program is not designed to communicate to employees all kinds of management guff about themselves, or the company, or pie in the sky. What the program does commmunicate is plain truths. It says: Each employee is doing an important job. Every employee can help make his department successful by doing his job smarter. Each one of us can make a real difference. If we work together, we accomplish more. Managers need and appreciate all the help that each employee can offer. Good ideas can come from anyone. And, if we work smarter and if we're successful, our jobs are more fun for each of us.

There's nothing fanciful or artificial about these statements. They are simple facts. But they're not stated often enough. We must remind employees of these truths and then back them up with actions. Let me give you a checklist of the actions I think are most important:

1. Generate realistic, challenging, and interesting assignments;

2. Involve subordinates in making decisions that affect their work;

3. Tell people the reasons they are asked to do particular tasks or follow certain procedures;

4. Exchange ideas with employees at every level;

5. Help employees develop professionally and personally;

6. Let every employee know exactly what is expected of him or her on every job; and

7. Provide the proper feedback on job performance.

Perhaps most important of all, give people information—facts and figures on how the department and the division are doing, how well the products are selling, whether production is up or down, how costs are running.

Sharing information does two things. First, it tells people what they need to know to make good decisions about their work. And, second, it lets them know they are respected members of the team. It sounds easy to do, but it isn't. Many managers seem to feel that sharing information means sharing power. It doesn't. It makes everyone a smarter contributor.

Management has to look at people in a new way. Most workers are capable of contributing much more thought toward improving production efficiencies than they normally do. And most of them are eager to make a contribution. But they are seldom told that their production efficiencies than they ognize that a production problem is first of all the employee's problem. If something isn't going right on his job, it's his responsibility to find an answer. He will not consider that a burden—in fact, if that responsiblity is not regarded as part of the job, it demeans the work and the worker. On the other hand, if the employee owns the problem, he also owns the solution. He feels the self-esteem that comes from working out his own answers and from increasing his personal participation.

These are the kinds of actions that American management will have to take, as I see it, if we are going to regain our ascendancy in the world economy. I've talked about them in simple terms, but they are not simple to perform. They require long-term, deep-seated changes in the way we deal with people. We're not talking just about changing behavior, but attitudes and personalities, too. It's not simply a matter of new techniques; it's a matter of new philosophies.

It's up to all of us to see that our people get the quality leadership that they deserve. We owe it to them and to our industries. Æ

ON THE HILL

Miller Testifies

On May 18, NADA President Wendell Miller testified before the Senate Banking Committee on three issues of concern to franchised dealers: (1) state usury limits, (2) the FTC Holder in Due Course Rule, and (3) the proposed FTC Credit Practices Rule.

Miller noted that while the reasons for the decline in the automobile industry are multifaceted, one clear contributing factor over the past two years has been high interest rates. "An off-shoot of the high interest rate problem, and a circumstance that exacerbates this problem, is the adverse impact that state usury laws have played in the decline of automobile and truck sales," Miller said.

"During times of high interest, financial institutions which are restricted by state usury ceilings either reduce significantly or stop altogether the financing of high-ticket consumer items such as automobiles," he continued.

Miller brought to the Committee's attention NADA statistics which indicate that approximately 30 percent of all consumer retail finance contracts are being turned down by financial institutions. In many cases, the inability of a bank to charge the going rate—not the credit worthiness of an individual—has resulted in a refusal to extend credit.

Concluding his remarks on usury, Miller urged the Congress to *preempt* state usury ceilings for consumer credit. He noted that Congressman John LaFalce (D-New York) has already introduced legislation in the House which would accomplish this goal—H.R. 2501—and he said that NADA supports the concepts embodied in the LaFalce bill.

With respect to the Holder in Due Course Rule, which went into effect May 14, 1976, Miller told the Committee, "Franchised dealers and other sellers of consumer goods have been placed in the anomalous and inequitable position of being legally responsible to insure that a requisite consumer notice is set forth in every direct-purchase money consumer loan. . . the practical effect of the Holder in Due Course Rule has been to impose legal responsibility on sellers for *creditor* conduct, often beyond the knowledge of sellers and certainly beyond their control."

Miller requested the Committee take whatever action may be possible to urge the FTC and the Federal Reserve Board to rectify this situation as soon as possible.

The final issue presented by Miller to the Committee for consideration involved the FTC's proposed Credit Practices Rule. On this issue, Miller stated that if the rule is adopted in its present form, it "will severely limit the ability of creditors to adequately and expeditiously enforce their rights under credit instruments. . . .Creditors will seek to minimize losses by raising the standards for borrowing, thereby limiting availability and increasing the cost of credit."

Miller concluded his remarks by stating that "restricted availability and increased cost of credit will adversely impact sales in an already stagnant automotive industry."

★★★

The 10 percent Federal Excise Tax levied against trucks, and the 8 percent tax on truck parts, has for many years been an area of financial concern to the small business heavy-duty truck dealers of this nation. In an effort to provide immediate assistance to the dealer, NADA is seeking help through legislative action. After meetings with NADA and ATD representatives, two members of Congress were concerned enough about the problem to sponsor bills in the two Houses of Congress. Congressman J. J. Pickle (D-Texas) introduced H.R. 2936 on March 31, and Senator John Heinz (R-Pa.) introduced the companion bill, S. 1320 on June 2. Congressman Pickle's bill has been referred to the House Ways and Means Committee, and Senator Heinz' bill to the Senate Finance Committee where they await action.

Briefly, the bills are not designed to *repeal* the FET, but rather to change the point of collection of

(Continued on page 45)

This is one of a series of monthly columns dealing with legislative issues of concern to franchised new car and truck dealers. It is intended to provide a brief summary of those actions either already taken by the Congress or currently pending which will impact on your business.

Bubba Oustalet, owner of Bubba Oustalet Ford, Jennings, Louisiana, says,

"Why sell E.S.P.?"

"If you control his service, you control the customer's signature in the buyer's office. It's a three-way relationship between the salesman, the mechanic, and the customer.

"The Parts and Service Department sells cars, too. And in the future, it's going to account for 50% of all cars sold. We think the way our Parts and Service Department handles customers is responsible for 30% of our sales right now. And it's the Extended Service Plan that brings the customers right back to our Service Department."

"E.S.P. increases profits considerably. It creates a strong bond between the customer and the dealership." So says Terry Navarre, Finance and Insurance Manager at Bubba Oustalet Ford. "If a customer has an $1800 engine job, and all he has to pay is $25, he tends to lean toward that dealership." And how does Terry sell E.S.P.? "First, I establish good rapport with the customer. Then I qualify him as to whether he needs 36,000- or 50,000-mile coverage. Then I sell him the plan."

"Seeing the people coming in every day, getting those repairs done, reinforces your commitment and your ability to sell."

That's how Rick Oustalet, General Sales Manager, accounts for total commitment to E.S.P. at Bubba Oustalet Ford. He goes on to describe how the plan was implemented: "First, I learned the program myself, forwards and backwards. Then I held meetings with the salesmen, the mechanics, everyone. I explained to them my personal commitment and Ford Motor Company's commitment. I showed how E.S.P. relates directly to them by building income through immediate incentives plus E.S.P. work added to our Service Department. But it's when the customers start hitting that shop door that you really start getting results. Then you get believability.

"Our penetration is running about 70% on new cars, 90% on used. When our employees buy a car, they buy the Extended Service Plan. Even

“Because the Dealer who provides today’s service writes tomorrow’s sale.”

though they can repair anything on a car, they still buy E.S.P. because they know they are protected.”

Familiarity with E.S.P. leads to commitment, and commitment leads to higher penetration, more service work, and repeat customers. Ford’s Extended Service Plan. Make it an important part of your business picture, too.

Your Key to Increased Profits.

Ford Parts and Service Division

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good on that, and action is taken. Overall, there are not that many problems. I think the dealers are treated well, taking into consideration the fact that we are going to try and get as much as we can at all times.

AE: It's been charged in the U.S. that there are really two markets: a U.S. market and a California market. It's also been charged that the U.S. manufacturers have missed the boat with respect to California, and hence, a heavy import penetration in that state. Is there a problem like that up here? For instance, you're from Quebec; is there a marked difference in taste in cars between Quebecers and Canadians in some of the other provinces?

Brault: Well, the people of Quebec were, as was the case in so many other regions, lovers of big cars. I think it would be a fair statement to say that we were probably the last ones to really jump on the wagon with respect to the Japanese car. Less than two years ago, we were selling big cars like hot cakes, and now it has reversed. It's unbelievable that it has turned so completely. We in the industry are tending to blame ourselves for a lack of vision, but as a businessman, it's kind of difficult when you're selling those cars like hot cakes to decide that you're going to stop producing them and start selling small cars. I think there are a *lot* of people to be blamed if there must be some blame. I hope it's not a naive statement, but ever since we discovered oil, scientists knew that this was un unrenewable source. What has the government done in that regard? All of a sudden, we have a big crisis, and everything is upside down. I have respect for the Japanese, but they have *always* produced small cars so, up to a point, there's a case of lucky timing, and *not* extraordinary foresight and engineering.

AE: Do you think the Canadian worker is essentially different than the U.S. worker? We keep hearing in the United States that people in our country just don't want to achieve like they used to—the sense of pride, supposedly, is not what it was. Also, the unions are in the automobile business even in the retail level now, for

"We have neglected the aftermarket."

better and maybe for worse, and, especially in the service area, a dealer has to pay big bucks to get anybody who's competent. Is there a situation like that here in Canada, or is it at least a little more reminiscent of the Japanese situation where a worker identifies so totally with his company?

Brault: I think the problem that you live with in the States is probably worse here. My perception of the American worker would be exemplified by a guy who says to an employer, "I want to make $1,000 a week," and if the employer says, "Yes," the worker says, "Fine, you just hired yourself an employee."

Here in Canada, my feeling is the man would say, "I would like $1,000 a week. However, I will not work more than 33 hours, I want two cars, and I want a one month holiday." Now, maybe I'm exaggerating, but I think there *is* that difference. I'm not a psychologist, but it seems that for many people, there are other things they find more important than making a buck. Are they pushing that to the extreme today? Maybe. But the mighty dollar does not seem to be the lure for the Canadian worker that it seems to be for his American counterpart.

AE: You mean he really goes after the comforts and fringes?

Brault: He wants his long weekend, he wants to go fishing. Not that the American doesn't want it too. But the Canadian is maybe a little bit more socially inclined, lured more by recreation. He's liable to say, "Why produce one more car today? I can go fishing today, it's a lovely day, and really, things are good."

Is our productivity lower? Maybe. Mind you, it's been said that the productivity of the Canadian worker is very good, except that the equipment that we have is not as modernized as that in the States. I don't know. I've heard government people say that quite often. But were they just placating the public? I couldn't say.

Our government for many years has said that we must share the wealth, and they have emphasized that every Canadian citizen is entitled. Just maybe, they—and the general attitude of the country—have gone too far.

AE: What would you say is the prevalent pay system in the back shop in Canada?

Brault: It would seem that as far as the body work is concerned, it's flat rate, probably almost everywhere in the country. With respect to the rest of the service department, it's probably 50/50 flat rate and by the hour. There may be more hourly paid than flat rate.

AE: Assuming your dealership is a fairly typical Canadian dealership, tell me about your operation with respect to how you work day-to-day with your people. What kind of set-up do you have, and how do you interact with them?

Brault: Well, I would say I have a very conservative way of doing things, with perhaps a difference. My father was a grocer, with a small store in the corner of a poor area of Montreal. I remember the times were very hard, and I was very young, and all of us were working our heads off six days and nights a week for a pittance. We were living on the second floor of the store, and my mother, for example, would use an old gas line that was disconnected in the wall as a telephone, and we could talk downstairs.

My mother would call my father up at one in the morning and say, "Aren't you coming to bed?" He'd say, "Well, I'm just now washing the floor." My mother then would say, "Well, you have employees to do that." And he would invariably say, "It's not their store; it's mine."

That has always stayed with me. I think I have been very fortunate and blessed to have a fine staff, and I have several reasons to say that. I've always tried to work very much as a team, feeling basically that if you hire somebody, it's for the gray matter that he has.

Therefore, let him be happy; let him give you what he has. Whether he writes with the left hand or the right hand is really no concern of yours.

Conversely, I will never go out with my staff except on specific occasions. I might have lunch, for example, with the whole parts department, to give me a chance to talk to them. As much as I see them on a daily basis, they have said to me, "We have had no chance to talk; we would like to have you to ourselves for two hours."

To me, they have been the greatest educator. If I have succeeded, I think it's thanks to them. It's like children: they can show you an awful lot of things.

The reason I say, though, that I don't make a habit of going out with my people is, I believe everybody has a private life. We spend more time in the dealership than we do at home. So I figure that once we've done that, everybody is entitled to do his own thing. It's not a matter of being a snob or anything. On the contrary. But it's one rule I've always held. I will never go out with the staff, generally speaking, except for something like a big party at Christmas—that's fine—or a golf game. But otherwise, we don't.

AE: Does that rule have anything to do with a feeling that you have to keep the image as the boss and they have to remember that?

Brault: No, it's just really that if you and I, for example, are working on a daily basis, five days a week, we may appreciate one another, but we have another life too. My people have no quarrel with that, and they agree. We say jokingly, you know, "I've seen your face there for five days and surely, there's something else you would like to do over the weekend."

It's not a matter of being afraid to lose "my image," because to me, that's no problem—I will shovel snow. As a matter of fact, some years back, I had an old tractor, I was kind of poor, I was just starting, and I often used it myself for cleaning the yard. I couldn't afford to go to Florida or anything, and I had found that this was a way I could isolate myself from the turmoil for an hour or two. It didn't take a PhD to shovel snow, and it gave me a chance to relax, think out the problems, and take a little bit of fresh air.

"I believe you must live your business."

Of course, one day, the vice president of Ford walked in, and of course he wanted to talk to the president of the dealership. One of my people pointed right at me and said, "The boss is over there on the machine." I had my old jeans and old shoes on, and I had to see him that way. I could just imagine him saying to himself, "So this is our dealer. Instead of running a dealership, he's playing around with his tractor."

This vice president was in charge of parts, so I invited him to see our department, and it just so happens I had, as I have today, probably the finest people on earth working there. It was, and really is, a success. In those early days, the place was not nice, but it was immaculate. This vice president seemed to be pleased at that, and when I got my statement out and I presented it to him, he was *extremely* impressed. That's when I took the opportunity to ask him what I felt I had to. "Can I," I said, "go out and play now with my tractor?"

I try, in other words, to be human, and I think I have a very good relationship with my staff. I have tried, and I think I have succeeded, to convince them to never be afraid of me, because if it gets that way, then they become parakeets. I tell them, "If you can't stand up to me, then you shouldn't work here, because you're too expensive. I can buy a bird for $50 that says, 'Yes, sir,' all day long. But this is not what I want."

So, we don't have many official meetings. It's not a big outfit. We used to consist of 60 people, and now it's 53. We've tried to cut expenses. The meetings are mostly on a casual basis, where a manager walks in about 5:00 or I walk into his office, and we start discussing a few odd things. We try to have an official meeting once or twice a month, but sometimes, it's kind of difficult to do.

What I'm trying to say is, I'd hate to say it's a family affair, because that sounds too paternalistic, and that's not the case anyway. I like to pay people what they're worth, and I think I do it to the best of my capability. But we do have a very open relationship.

AE: Your business, when you started, was a very small one.

Brault: When I opened up, I started from scratch. I have had that pleasure. In 1963 when I opened, there was absolutely nothing. As a matter of fact, it was a swamp. So I had the pleasure to say, "Yeah. We started from the ground up."

AE: What do you think has been the key to your growth and success?

Brault: I would be hard-put, honestly, to tell you. I've always been a believer that you must live your business. To me, my business is a great part of myself. It's got to be a part of you. Whatever it is, it becomes a second nature. And I think probably that permeates through the staff. If you're never there, if you're always in Florida, I wonder why the staff should be that keen on working. So, one could answer your question by saying the other thing: "We work hard, and we didn't spend any money." I guess everybody says the same thing. But really, if you live your profession, how could you not succeed? It's part of you.

AE: Is there any particular part of the business that you pay particular attention to, or are you the general overseer?

Brault: I am, of course, the overall manager, but I have a weak spot for the parts department. That was the department, when I started, that made the first transaction, and it's so vivid in my mind that in the first month, October, '63, we sold $484 worth of parts—that was wholesale, retail, warranty, body, paint, you name it. Now, 18 years later, we do $2.2 million a year in parts. That's $160,000-$180,000 a month, and

sometimes we exceed that.

I have developed a *very* close working relationship with those people in that department who have helped me. I have an absolutely fine manager. I used to walk in there and say, "Can you imagine, boys, selling $5,000 a month someday?" And they would say, "Oh, boss, you're never happy," but they really wanted to succeed, and they worked. In fact, the occasional lunches we have with the staff now started with this group. As business improved, we started changing restaurants. We went from McDonalds to what is probably the best and most expensive restaurant in Montreal. When I bring our people, including the drivers and everybody, the bill is steep, but it's opened up a great deal of communication. And, to me, it's part of having fun in what you're doing and liking it.

AE: Prior to '63, you were in the rental business, right?

Brault: Yes. Originally, I started my career with the Ford Motor Co. as a service clerk in 1953. I stayed through '58, and then I left and started a leasing company, and then, later, my own dealership.

AE: When you started with Ford as a clerk, did you have it in mind that you wanted to get in this business and do what you're doing now?

Brault: Yes, I've always loved the car business, and I've always loved cars. But, it was by coincidence that I got into Ford Motor Co. The first job I got after school, strange as it may seem, was with a surgical company. My boss was a Ford fan, and always drove Fords. But, every car he had, he said, would always pull to the right. I would take the cars to the dealerships, and because of my boss' persistence, I was back again and again to find the cars' problems, and I eventually met the local rep. Finally, he asked me if I'd like to join the company. I thought about it and I eventually did join Ford.

AE: Have there been any specific changes in the way you've done business since the beginning or in the way the customers relate to you?

Brault: I remember that when I started, you went to see a customer, you sat down in the kitchen with him, 'cause I started in the country, and when you had a handshake, you had a deal. It was settled. Or, if he told you he would be in Tuesday night, for instance, he would be there. Things were done on the up and up. There was no problem. If he were short $100, he would be sure to get it back to you. If you made a mistake, you corrected it, no problem. It was very pleasant, very casual.

But then the consumer protection laws came to be. I don't disagree with them in principle, because I'm sure there was some abuse. But the spirit of the laws, our legislators tell us, was to build better relations between business and the public, and I find the contrary has been the case. Your kindness, now, can kill you. You don't take any chances. You don't do any favors unless you're absolutely clear about the repercussions of what you're doing, and also absolutely certain about who you're dealing with.

If I sign a deal at my customer's place, at least in the province of Quebec, that customer can give the car back to me in 10 days, and he can do all sorts of things to me. The deal has got to be signed in my showroom. He can even cancel the contract in the event there's a blank spot in the contract and I forget to put a mark across it. You become very wary in dealing unless you've known the person for years. Sometimes you would love to do something for a customer, but you say no, because you don't know if it's going to come back at you. You might want to say, "Here. Take my car tonight," but you don't, because you may be sued the following day because the guy blew a tire.

That situation, and the union situation that has hit some dealers make the climate a little bit tougher. And it has dug a little bit of a trench between the employees or the customer and the dealer, because now, in a way, you don't really know who you're dealing with.

AE: Is part of the problem just that there are more people now, more transient people, and consequently, more "strangers" to deal with?

Brault: Possibly that's valid to a point, but it's an attitude. I can only speak for Quebec, because if you go to Saskatchewan, it's even worse: They're probably the two provinces that are most socialistic in their approach, most inclined to consumer protection of all kinds. For example: My salesman could be mad at me and sign a contract on a Lincoln for $5,000, which is, of course, ridiculous, and I would have to deliver. Consequently, we have tried to remove the salesman's signature from our contract. One of our dealers in Quebec was sued by a guy who took delivery of a car, drove it for 11 months, 6 days, and 23 hours, and then sent a registered letter to the dealer asking for his money back because he could not maintain the car in good condition because he was given an English language owner manual. The car owner lost, people are not stupid. But, we had to go to court, and these things cost money.

The government says, "Well, if you're an honest dealer, the law shouldn't worry you. But don't forget that when new law comes of age, a lot of people try it out. You have people that are not always honorable, and you're stuck with them, so you're afraid. The problem is not that more people are transient. It's the mentality today—the socialistic approach that we're the big bad wolf, we're making too much money, and all that. I think this is the change.

AE: Are you guided, as a businessman, more by local and regional laws than you are by federal law?

Brault: There is no doubt that in our daily operation we are governed by the provincial law. The customer contract and licensing, of course, is governed by provincial law. Now, things such as laws for weights and measures—that's federal. So we're governed by the two sides. But with respect to the daily business, what we have to deal with is the provincial law as dealers.

AE: In other words, what we in the U.S. would call a state has a lot of power over your business dealings?

Brault: Yes, definitely. The consumer protection law that affects me is provincial. The sales tax—which ranges from eight to ten percent—that has nothing to do with Mr. Trudeau; it's provincial. The excise tax—that's built

(Continued on page 57)

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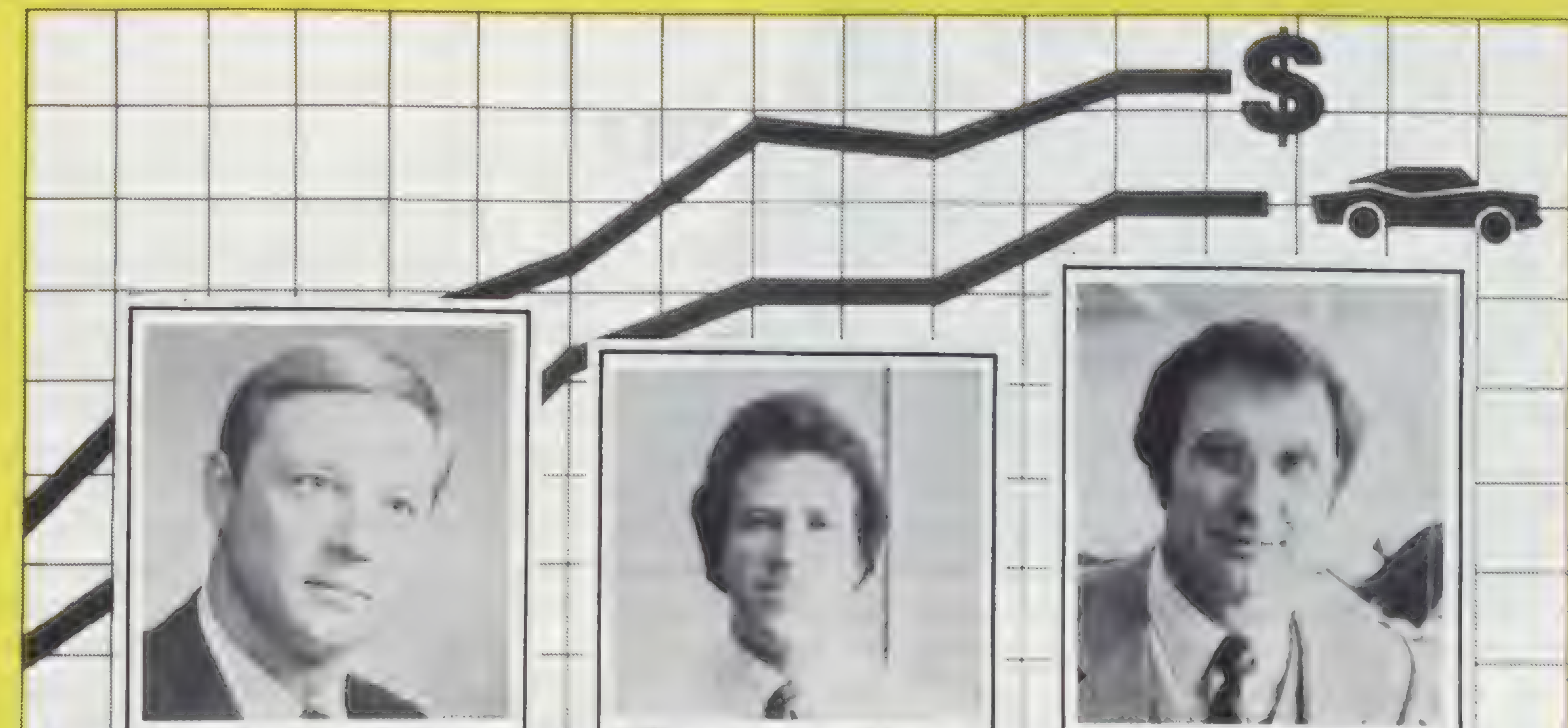

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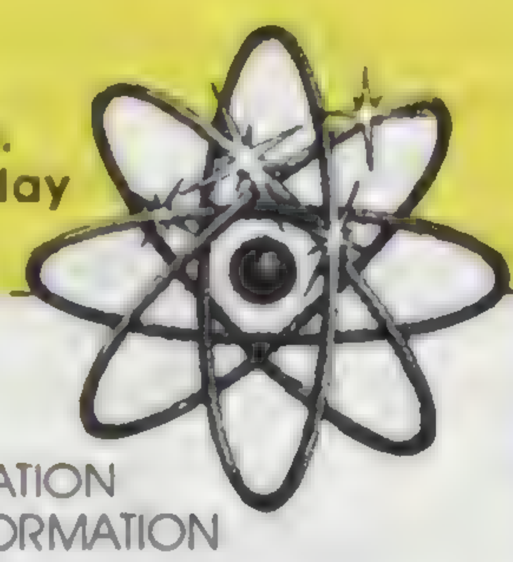

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REC VEE REPORT

Gus Chiarello

Trade-ins

One of the biggest stumbling blocks hindering the growth of the RV industry is the reluctance of many dealers to take trade-ins. Even though the majority of new model sales come from repeat buyers, many dealers turn away trade-ins and encourage prospective buyers to sell their units on their own. Because of this kind of thinking, at least 65 to 70 percent of all used recreational vehicles are traded from private party to private party. Interesting, isn't it, that these RV'ers usually have little difficulty selling their units?

One of the few positive side effects of the inflation spiral has been the increase in value of just about every recreational vehicle on the road. A good number of the folks who bought their recreational vehicles purely for pleasure now find they have a respectable amount of equity built into their units. These RV'ers are looking for a fair price when they decide to sell their units, and are looking to make the sale as painlessly as possible. Instead of kicking a potential buyer out the door, dealers should be offering to take the customer's vehicle off his hands—the first (and maybe most critical) step toward the sale of a new unit.

The successful dealer of the '80s will be advertising the fact that not only does he take trade-ins, he wants them so badly he'll make deals that cannot be refused. If you can convince a prospect his original decision to buy an RV was a wise one by giving a fair price in trade, you're well on your way to consummating the sale of a new vehicle. If, on the other hand, you discourage or refuse a trade, how confident will the customer feel about buying another unit? Not very.

The new buzz word among salespeople today is "creative." Real estate agents use "creative financing" to close sales. Automobile dealers offer factory rebates in order to "create" deals. And now RV dealers have their own creative tool to help boost retail sales—the trade-in. The prospective buyer wants to buy. Don't disappoint him by refusing to trade. Create a *reason* for him to buy.

★★★

For more years than I'd like to remember, I've been preaching the dangers of selling a large volume of vehicles at low profit. During the RV boom years, when dealerships suddenly sprouted up on every corner, the dangers of this practice were hidden behind the smoke screen of high sales. Dealers were moving such a large volume of vehicles that gross profit per unit didn't seem to matter.

When the smoke cleared, however, and unit sales took a nose dive, it became obvious that the dealers who would stay in business were the ones that hadn't compromised their prices. It also became obvious that the overnight growth of the dealer network had included many individuals who didn't belong in our industry. They were the first to go out of business when demand began to sink. These so-called "businessmen" watched their ventures collapse because they had bought the wrong product lines, had little or no knowledge of the business, and didn't have the first idea of what service means.

Unfortunately, this weeding-out process was painful and took with it many legitimate RV dealers. The survivors all had one trait in common: They were high grossers. During the boom years, these dealers didn't bend their prices and make "skinny" deals; they worked to sell their product for a fair return on investment. These dealers knew all along the secret of selling was not to give merchandise away, but rather to convince the customer of its quality.

Today, dealers have returned to the basics. It's a pleasure to talk to retailers who know what it takes to stay in business—quality, performance, and service. Most RV dealers now realize the futility of thin deals and stay in business be cause they work to stay there. It's basics that *built* our industry, after all, and it's the only thing that will keep it thriving. Æ

Rec Vee Report is prepard exclusively by **automotive executive** *on a quarterly basis by Gus Chiarello, executive editor of the NADA Recreation Vehicle Appraisal Guide. All comments or questions pertaining to these columns should be mailed to: "Rec Vee Report", NADA Recreation Vehicle Appraisal Guide, P.O. Box 1407, Covina, CA 91722, c/o Gus Chiarello.*

Tilt-Wheel: The low-priced Blue Book bargain.

With an MSRP of just $88.00 on a 1981 GM car, Tilt-Wheel is honest value. But take a look at the latest Red Book, Kelley Blue Book or N.A.D.A. Guide and it's really a bargain—with a resale value of up to $75.00 on 1980 GM X-cars.
Some other advantages...

- Tilt-Wheel adds a measure of big-car comfort and convenience to small cars.
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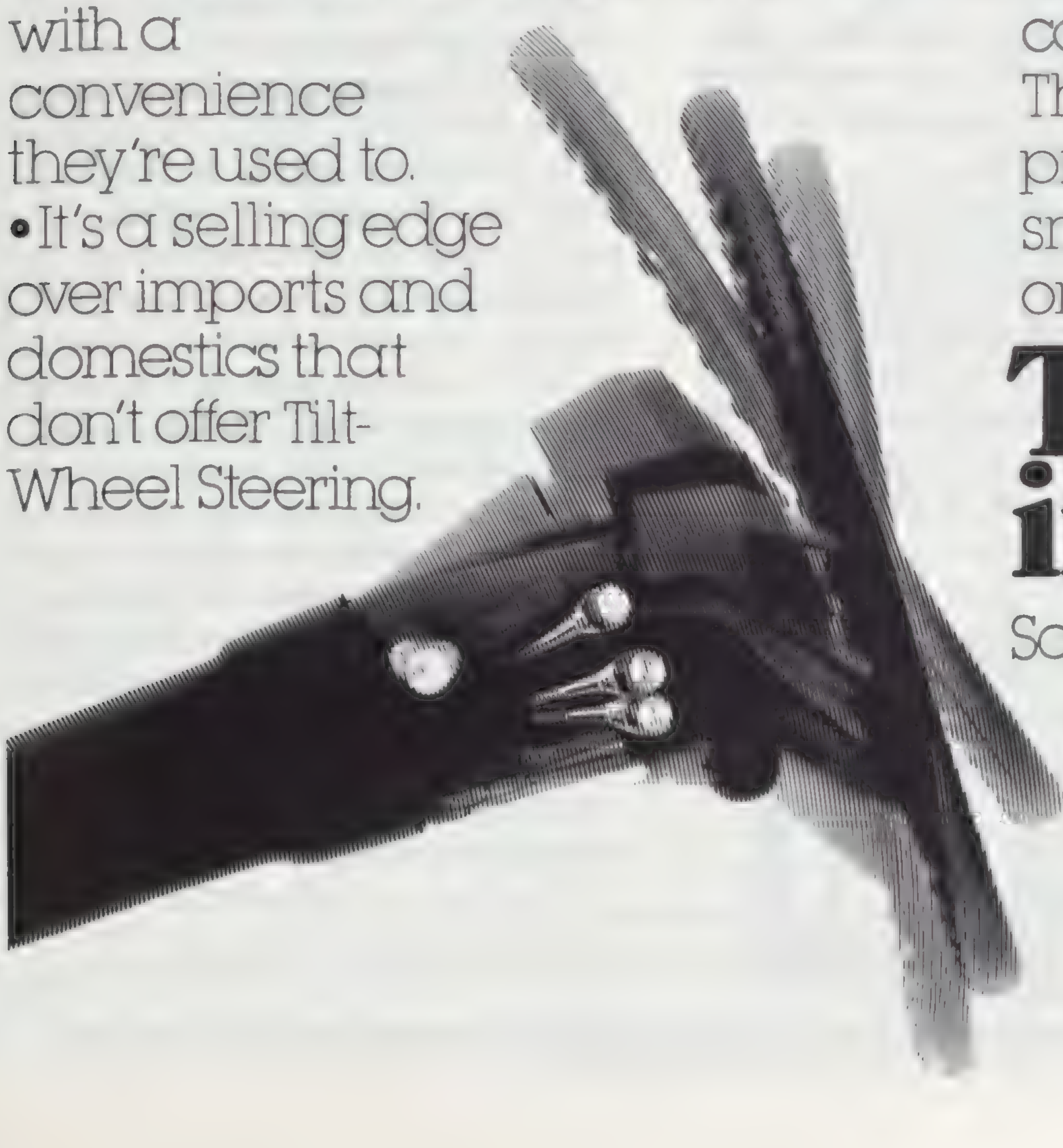

The smaller the car, the more practical Tilt-Wheel is. So order smart—with low-priced Tilt-Wheel on all your "Ts" and "Xs."

Tilt the odds in your favor!

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Saginaw GM

Selling Yourself

Joe Girard

The Art of Selling

One of selling's greatest myths is that of the born salesman. Selling is mostly hard work, involving pre-sale and post-sale activities aimed at developing prospects. The salesmen with a 100 percent closing average (there are none) will not sell *anything* without a prospect, and that's why prospecting is *the* single most important activity.

Probably the most difficult and awkward moment in selling is the first meeting of the salesman and the customer. The customer is in your territory, and regards you as the enemy. The moment he walks in, all of his defenses are up. The first impression you make and how you handle that tense situation is of *vital* importance. If you are flip or fast or pushy or insensitive, you are dead.

All of your efforts at this point should be directed at relaxing this tense individual. Until you do, your chances of selling him are remote. (Even the coolest of customers are tense in this situation, even though they may not show it.) At this point, there is no future in acting the high-powered salesman. You're only reinforcing the prospect's fears.

What Is the Prospect Really Saying?

"Just looking" really means your customer is afraid of being sold, and is trying to diffuse what he regards as a confrontation. Before he will buy anything, he must be made free of fear, free even to walk out, if and when he should decide he wants to. What you need is some friendly gesture to take the edge off the pressure he feels.

The Magic Cup of Coffee

The simple offer, "Let me get you a cup of coffee while you look around" can work wonders. Coffee is a social event, and it is a message to your prospect that he is not going to be hassled by some pushy salesman. Everything you do, your attitude and demeanor, should be relaxed, casual, friendly and helpful. Be the kind of guy that you would enjoy meeting for the first time and having some business dealings with. Even a small investment such as a quarter in the coffee or coke machine is one that will return you several fold several times.

Whatever you do, don't let your clothes speak *for* you! Use taste and common sense. If you look like a slick operator, your prospect will label you as one—and it will not be meant as a compliment. It will likely be meant as an adieu.

Relating a lot of features and technical facts rarely sells either, unless "need" has been established. Establishing "need" is part of the qualifying process during which you find the prospect's "hot button," the thing that turns him on. "Need" wears a lot of hats:

1. Need can be fun.
2. Need can be peer-group recognition.
3. Need can be performance and thrills.
4. Need can be the promise of romance.
5. Need is self-image.
6. Need can be anything.

Anything that you *want* becomes a "need" craving to be satisfied.

The prospect's "need," before it can be satisfied, must be identified. Obviously, the best way for you to find out what it happens to be is for him to tell you. When you are talking, you learn nothing about him. So your goal, really, is for *him* to talk and for *you* to listen.

Most salesmen talk too much. In fact, the tendency is so prevalent, it's become an occupational hazard. Salesmen *just can't stand silence.* However, if you want your totals to be good, resist the urge to talk. Let the prospect break the silence on occasion. If you do, he might surprise you. Remeber: A fundamental principle of negotiating is, "He who talks first, loses." And if you insist on obviously having the upper hand, you'll have the satisfaction of winning the argument, and losing the sale. It happens countless times every day to your cohorts, but it doesn't have to happen to you. Don't be obsessed with demonstrating your technical and mental superiority over your prospect. It just isn't worth it.

Selling is, in large measure, information gathering—intelligence!!

These columns appear exclusively in **automotive executive** *and are prepared by Joe Girard, named the World's Greatest Salesman 12 times by the Guinness Book of World Records. Questions and comments should be addressed to* **Joe Girard, P.O. Box 358, East Detroit, MI 48021.**

If you knew everything there was to know about your prospect, it would be relatively easy to sell him. The more information you have, therefore, the better, and consequently, the better you ask your questions, the more effective that gathering process will be.

Structure your queries so they cannot be answered with a yes or no.

1. Your name is?
2. Where do you work?
3. What do you do there?
4. What kind of car do you own?
5. What kind of driving do you do and how often?

In addition to giving you the valuable information you'll need to do the kind of selling job your customer will appreciate years later, this kind of questioning has the additional benefit of getting the prospect to talk about *himself*, and that kind of talk has a therapeutic, relaxing effect on him. After all, ask yourself: What do *you* like better? Being around good talkers or good listeners? Æ

ON THE HILL from page 35

the tax from the wholesale transfer to the first retail sale of the vehicle. Under current law, the dealer must pay the tax to the manufacturer at the time he takes delivery of the truck. This forces the dealer to include the cost of the tax in his already high inventory financing. With a tax of between \$5,000 and \$7,000 per truck, the interest cost of financing the FET reached into the tens of millions of dollars in 1980. In changing the point of collection to the first retail sale, the financial burden on the dealer will be alleviated.

NADA and ATD have, over the years, supported the *full repeal* of the Federal Excise Tax, and will continue to pursue this approach. However, as a result of numerous conversations with members of the House and Senate tax committees, we have concluded that a full repeal at this time is not feasible. The Association has always considered the approach of changing the point of collection as an *interim* solution, and we will continue to press for a full repeal of the FET.

Æ

Still the best protection for your customers.

And now the Plan is better than ever, with coverage up to 4 full years or 50,000 miles.

We've increased car rental allowances. We've expanded and revised eligibility requirements to allow purchase of the Plan up to 6 months or 6,000 miles from the new-vehicle delivery or in-service date. And for added value when it's time to trade, we've made the Plan transferable to subsequent retail purchasers.

Quite simply, there is no better extended repair plan anywhere than GM's. This includes depth of coverage, ease of handling claims, number of outlets where service can be performed, even the toll-free "800" hot-line to help GM customers out of a bind.

Still the best protection for you.

In more ways than one. With the GM Continuous Protection Plan, your customers have an agreement directly with GM. There are no surprises, little risk.

As to payment for work performed under the Plan, GM will pay you for parts up to list and labor at your retail hourly rate. Compare that with most other plans. And we pay you direct, usually within five days, without a lot of hassle and paperwork.

Something else. You don't get involved in disputes with customers about repair costs when they have the GM Continuous Protection Plan. You handle the repairs. We take care of the bills.

Finally, there's this to remember. Because *we* pick up the tab, your income won't be cut by the effects of inflation on parts and labor costs later on down the line. That's *real* protection.

Big profits, too.

That's right. Under our new discount structure, base profit potential has been increased significantly. What's more, we're continuing the sales penetration bonus program, which lets you earn even more. For example, on group C cars at the 30% bonus level, and group C light trucks at the 22.5% bonus level, with the new base price discount you can now earn up to $100 if you choose to sell the 36/36 Custom Plan at the suggested selling price.

Keep the GM Connection. Talk to your Zone Rep today.

Bring yourself up to date and find out in detail about the many favorable aspects of the GM Continuous Protection Plan, including the new sales incentive program.

About the long-term potential for real income.

About the expanded eligibility for commercial vehicle usage.

About the way we take care of all the paperwork, freeing you up for more important things.

And about our plans to make the GM Mark of Excellence as important to a customer on his repair plan as it is on his new car, light-duty truck or van.

IT ALL MAKES SENSE

Continuous Protection Plan

GM

TAX BRAKES

Irving Blackman

Everyone, except the IRS, loves this tax idea. You, the employer, can *deduct* more dollars than you pay to your employee. Impossible?. . . The law will not allow such a result? . . . You are right. Nothing in the law does allow it, but by combining several sections of the law, the result is obtained. Even the IRS has been forced to agree (Letter Ruling 8049017). Here's the scenario:

Success Corporation employs Joe Exec. Joe will receive an agreed salary plus 100 shares of Public Co. Success buys the shares of Public and transfers ownership to Joe. However, if Joe terminates his employment with Success before 1990, the shares are forfeited (ownership is returned to Success).

In 1981, Joe receives $10,000 in dividends on the Public stock. Now the tax results of the scenario: The $10,000 in dividends is considered income to Success. Why? According to the tax rule, stock that's subject to a *substantial risk of forfeiture,* even though transferred to an employee as compensation, is treated as the property of the employer for tax purposes. This status continues until the employee's rights become fully vested (Code Section 83). Success is entitled to deduct 85 percent of the dividends received (Code Section 243).

Okay, let's put the law and the numbers together. Success, in effect, received the $10,000 and paid it out to Joe. That's good for a $10,000 compensation deduction. The 85 percent dividend credit produces another $8,500 deduction. Total deduction for Success is $18,500. Joe pays tax on only $10,000.

Like I said, you will love this idea.

Maximum marital deduction may not be best. Congress goofed. Oh yes, they had the right idea—they wanted to help the little guy. The idea was to increase the amount that can be passed tax-free for estate tax purposes to a surviving spouse. How?. . . By increasing the "marital deduction" for small estates.

Simply put, the marital deduction allows up to one-half of a husband's estate, or $250,000, whichever is greater, to pass tax-free to his wife. Of course, it could also be from a wife to a surviving husband. For example, if we assume the husband left a $2 million estate, $1 million could pass tax-free to his wife. Subject to some exceptions, the out-of-pocket estate tax cost is:

Taxable Estate	Tax Cost	Percent on Excess*
$ 175,625	$ Zero	32%
250,000	23,800	34
500,000	108,800	37
1,000,000	298,800	41
2,500,000	978,800	53
5,000,000	2,503,800	70

"Excess" refers to a Taxable Estate dollar amount falling between two listed figures in the table—for example, a dollar amount falling between $175,625 and $250,000.

Obviously, saving one-half of the estate cost or more when the husband goes to his reward is a big deal. Let's examine the tax trap for small estates. Assume Husband dies leaving his entire $300,000 estate to Wife. The normal marital deduction is $150,000 (half of $300,000). Since $250,000 is greater, that is the marital deduction in this case. That was Congress' "great idea." Okay, then, only $50,000 ($300,000 - $250,000) is taxable. Look at the table above. The "tax cost" on a $50,000 "taxable estate" is ZERO. Great! But, what happens when Wife dies? Assume she spent $50,000 and dies with $250,000. The table shows you an out-of-pocket tax cost of $23,800. Ouch!

Could this have been avoided? *Yes.* If Husband had left one-half of his estate to Wife and put the other half in trust for her benefit, both would have died without any taxable estate. Savings—$23,800.

No, I don't expect you to understand every fine point of the marital deduction. But, be forewarned: one of the most common errors in estate planning is "overfunding the marital." This means leaving too much to the wife. The estate tax picture may look good when Husband dies, but the IRS makes

These columns are prepared by Blackman, Kallick & Co., certified public accountants, under the watchful eye of Irving Blackman. Blackman, also an attorney and author of **Winning the Tax Game**, *consults with businessmen around the country on the subject of taxes and profitability. Questions concerning these columns should be addressed to:* **Blackman, Kallick & Co., 180 N. LaSalle St., Chicago, IL 60601.**

up for lost ground when Wife dies. . . in spades. Overfunding clobbers the large estate as well as the small estate.

My advice: see an estate planner. Now!

New business gets new break. Sometimes, Congress comes up with good new tax law. The new amortization rules for start-up expenses are an important tax-saving example.

Under the old rules, expenses incurred before you actually started doing business were not deductible—not in the year incurred, not ever. Such expenses include professional fees, licenses, investigatory costs, and all other expenses incurred prior to starting business operations. Bad law! Now, such expenses paid or incurred (after July 29, 1980) can be written off in 60 months or more.

To qualify for the writeoff, the expenses must be incurred in connection with (1) the acquisition or creation of an active trade or business or, (2) the expansion of an existing trade or business. The trade or business actually must be entered into before the 60-month amortization period can start.

In order to obtain the benefits of this new rule, you must make an election and attach it to your timely filed tax return. If you fail to make the election, you are stuck with the old rules.

What's the best way to take your money out of a qualified plan? Good question. Sooner or later, every participant (or his beneficiary) in a qualified plan (profit sharing, pension or ESOP) will be entitled to receive his benefits. Is there a tax cost? Is this cost significant? Can anything be done to reduce cost? The answers to the questions are yes, yes, yes.

Unfortunately, the rules that govern the taxability of distributions from a qualified plan are a complex maze. You must seek professional help to maximize your after-tax benefits. Why? Because there are a number of choices of how benefits can be paid out of a plan. That's good. But what may be the best choice for one participant/taxpayer may be the *worst* for another participant/taxpayer. The right choice is related to your age, your income needs, and the size of your estate.

Basically, you have three choices: (1) take a lump-sum distribution and pay an immediate tax, or (2) roll over the lump sum into a tax-free IRA (Individual Retirement Account), or (3) have the trustee of the plan pay your benefits in installments. You must always keep in mind that your benefits are subject to two taxes: the income tax and the estate tax.

"Be forewarned: One of the most common errors in estate planning is 'overfunding the marital.'"

The estate tax can be avoided entirely or in part. The income tax can, at best, be deferred or subjected to lower tax brackets down the road. All the options and possibilities could fill a small book.

Generally, the estate tax can be avoided by taking all or any balance in the plan, or in an IRA that received a lump sum from the plan, in installments. This is choice (3) above.

The income tax consequences are listed below:

Choice (1): Pay an immediate tax, but one based on a special favorable ten-year averaging computation;

Choice (2): The transfer to the IRA is tax-free. Between the ages of 59.5 years and 70.5 you can withdraw whatever amount you want, taxable at no more than the 50 percent maximum tax. Undrawn funds continue to accumulate tax-free. At age 70.5, you must begin to draw the balance.

Choice (3): Installments received from the trustee are taxed up to the 50 percent maximum.

I suggest you cut this item out. Keep it with your qualified plan papers. When the time comes, take it to a qualified professional. He can make precise computations with your facts. You will also learn there are more rules and exceptions than mentioned in this item. You will be astounded at how large the tax savings will be with the right choices. Æ

MONEY SEN$E

Investment Timing & The Magic 1000

Income-tax season is the time when investors calculate their profits and losses on last year's securities sales for tax purposes. The results, pleasing or not, frequently raise one question in the minds of many investors: Is there a way to improve investment returns by better timing of purchase and sales?

The goal of every investor, of course, is to buy low and sell high. Unfortunately, no one can predict the future, and there are no guarantees in the investment world. It is impossible to call market or stock-price turns with absolute accuracy every time. Still, there are tools you can use and guidelines you can follow that may help better your overall investment returns.

Market Timing

Market timing, the technique of predicting when the market or individual stock may be approaching high or low points, is one way investors attempt to improve the prices at which they buy and sell. Market timing may involve both the "fundamental" and "technical" analyses to determine a stock's price direction.

Fundamental analysts believe it is possible to determine the intrinsic value of a stock, and they feel whether the price will go higher or lower is based on what the company is expected to earn and pay out in dividends. By analyzing a company's sales, earnings, price/earnings multiple, and similar statistics, they recommend buying a stock when it is trading below its intrinsic value and selling when it is trading above that value.

Technical analysts, on the other hand, believe securities prices, like other prices, are determined by supply and demand, and may or may not be related to the intrinsic value of the security. They maintain that price trends can be predicted by studying past price movements, trading activity, and similar factors.

As the market has become more volatile in recent years, with wider price swings over shorter periods, many institutional and individual investors have developed a much shorter-term orientation. They have become increasingly attentive to technical analysis —thinking constantly of market timing and calling market turns —because they are afraid of being caught by surprise in a sudden slide.

However, the market is not characterized by massive uniformity. Much of the time, it has internal cycles that are at variance with the trend of the major market averages. An over-reliance on market timing can mean missing out on these opportunities.

Other Guidelines

Timing is, after all, just one consideration in making buy/sell decisions. An overall investment strategy is essential. Determine what your investment goals are, then develop a plan that fits them and stick with it.

Market analysts commonly advise avoiding "hot tips" and hopping from one fad investment to another. In fact, many suggest that investors who concentrate on stock selection, and who buy stocks on a value basis when those stocks are out of favor, are more likely to be successful in the market.

Diversification is recommended also. Spread your risk by avoiding concentration on a single industry or single line of business.

In addition, you should always set price objectives whenever you make an investment. If the stock advances as you hope, reassess the situation regularly—especially when the stock reaches your objectives. Ask yourself if the reason you bought the stock in the first place still holds, if the stock is still gaining at its former pace, and if it is still responding to good news. If the answer to any of these questions is no, it may be time to consider selling. Making the decision to sell a winner can be difficult, but even if the stock continues to advance after you get out, "selling too soon" can help you protect the profits you have already earned.

Deciding when to sell a loser and following through with that decision can be equally difficult. No one likes to admit a mistake, and it can be tempting to hold on, waiting for a turnaround that never materializes or that takes a very long time in coming.

With every investment, you should consider what could go wrong and at what point you should sell. Some analysts suggest you consider selling a stock once it has dropped 10 percent or so. If you are reluctant to take small losses, at some point, you'll probably have to take big ones. Bear in mind that you are not just losing money on

This column is prepared as an automotive exclusive for Æ by Bill Waters, Director of Marketing Services with Merrill Lych, Pierce, Fenner & Smith. Reader comments and inquiries should be sent to: **"Money Sense,"** *automotive executive* **magazine, 8400 Westpark Dr., McLean, VA 22102.**

the particular investment involved, you are also losing an opportunity to earn profits you could have gained if you reinvested in a better performing stock.

★★★

To many, the recent flirtation of the Dow Jones Industrial average with the 1000 mark has great significance—they say it is the result of President Reagan's election and a sign of economic rebirth.

But, for those not familiar with the market, the Dow Jones industrial average is a mysterious indicator of little meaning.

What's the Dow Jones average?

In the late 19th century, business analyst Charles Henry Dow proposed the theory that securities-market trends could be predicted by computing a daily average of the prices of certain key stocks. His averages, which included only 11 stocks at first, began appearing in newspapers in 1884. The first index, consisting entirely of industrial stocks, appeared in the *Wall Street Journal* on May 26, 1896.

Originally, the performance of the indexed stocks was computed by taking a simple mathematical average. However, the growing practice of stock splitting made this method unwieldy, and in 1928, a new method was adopted. Now, as companies split their stock, the average is readjusted according to an accepted formula so that it accurately reflects the changes.

Today, Dow Jones publishes, in addition to its 30-stock industrial average, an average of 20 transportation stocks, at 15-stock public utility average, a 65-stock inclusive average of all the industrial, transportation and utility issues, and four separate bond averages. The averages are revised every half hour in an 8-second computerized procedure, and are distributed to subscribers all over the world.

The Dow's Significance

In part because of its long history, the Don Jones industrial average has tremendous prestige and gets greater worldwide coverage than any other stock average, including the Standard & Poors 500, which has been around since 1926, and the New York Stock Exchange Composite Index, in existence since 1970.

To some investors, the Dow is almost mystical, and "outperforming the Dow" is the main ambition of numerous money managers, trust departments and mutual funds.

Some Wall Street authorities, however, think the Dow has taken on more significance than is warranted by the 30 stocks included in it, and that it is no longer really representative of the whole market.

Indeed, it is a relatively narrow measure of the stocks of old, established companies, such as General Motors, General Foods, Minnesota Mining and Manufacturing, Proctor and Gamble, U.S. Steel, and Woolworth, and often underperforms the market because it does not take new industries into consideration. The Dow is so conservative that it didn't add IBM to its roster until the company's period of greatest growth was over, and it contains none of the new high-technology stocks that are stirring

(Continued on page 58)

USED CARS

We have previously mentioned in this column the profit potential in older cars and "collectible cars," but because two correspondents recently wrote to the NADA Official Used Car Guide about this subject, we feel it is worth bringing up once more. (By the way, we hesitate to use the term, "classic cars" in this context since many bona fide collectibles have yet to be certified as "classic.")

The first letter is from R. Carson of Ridge Road in Avon, Connecticut. In the letter, Carson laments the plight of the last of the production convertibles and how they are mistreated in the typical used car guides. He specifically refers to a 1974 Buick LeSabre convertible because his wife owns one. It is unfortunate that the NADA Guide, and possibly others, tend to condense the last listed year of a make into an "all body styles" category. In most cases, this is acceptable, but there are exceptions. . .and this is surely one. Carson's point is well taken: there *are* cars that have value beyond that of simple transportation, and some of these cars are still listed—as simple transportation—in nationally accepted guide books. Even more injurious, though, are those instances in which cars with value drop from all car guides—at least those in common use—and find themselves in the limbo of "no book value."

The second letter the Guide Book received is from Roy S. Bobo, president of Boaze Motor Co., Lexington, North Carolina. Bobo is a former new car dealer who now concentrates on used cars and service. Along that line, we quote directly: "These two sources for a living never seemed to impress any factory rep I ever had any dealings with." To that, we say "amen."

Bobo concerns himself with those older cars, especially those in the 1970-73 range, which have been dropped from the NADA book. He makes no mention in his letter of collectible cars. His complaint is not uncommon: it is all but impossible to obtain financing on these cars that do not appear in most used car guides. To some people, it seems, such cars do not exist as a part of the economy. All of us know there are many people who can afford no other type of car, and others prefer or need a car of this vintage. (On this line, Æ has noted that those who tow vehicles may be well advised to look into their future needs and prepare for them today. Some of the new cars can just about move themselves along, and towing something is utterly out of the question.) Bobo observes that there are excellent profits to be made with the older vehicles, and we know some dealers (once referred to as iron merchants) who concur fully but would rather the word didn't get about.

Many new car dealers—there is little question—have been joining the fraternity of used car dealers with increasing enthusiasm these past several months. Those with foresight made the switch some years ago, and, of course, there were always a few who were never out of used cars as a profitable business.

In the area of older cars, there are still a few windfalls for astute dealers. Some valuable cars are owned by individuals who may not know what they have or really care. (I drive two teen-age boys to and from school, and our route is mostly on the Washington Beltway. The kids are alert to two things—pretty girls and eye-catching cars. When these two circumstances combine. . . well, it is very noticeable. But restricting myself to the cars for a moment, let me say there are very few new cars the boys will even glance at. Yet, they always do a double take at many of the performance cars of the late '60s and early '70s, as well as some which were not performance-oriented but just look that way. One day, an exceptionally pretty girl passed us in an older Challenger. The boys immediately awarded this a rating of "20," which translates into a "10" driving a "10." I myself can hardly tell one new small car from another, but my heart still races a bit when I see a well-kept Boss 302. And my point is, a *lot* of people feel this way.)

There are guide books available which will assist you in determining approximate values for older cars, whether they be collectible or transportation, or both. I would be inclined to look askance upon any evaluation method which simply subtracts a dollar amount from the next newest car. One can see how that could lead to a minor disaster. . . just consider the Mustangs. Further, it would appear there is little, if any, "make" preference among those people seeking transportation from these older cars. In fact, it just could be that there is also little body style preference, but this is, it would

The Used Car column is prepared exclusevely for **automotive executive** *by James "Harry" Lawrence, editor of the NADA Official Used Car Guide. All comments or questions pertaining to these columns should be mailed to:* **"Used Cars",** *automotive executive* **magazine, 8400 Westpark Dr., McLean, VA 22102.**

seem, a more important factor than make. When you see a high school youngster driving to school in an old, big wagon. . . well . . .chances are it was the family chariot he inherited.

One publication we recommend is the *NADA Older Vehicle Guide*. This book lists cars built from 1966 to '73, as well as older RVs and motorcycles. The car format is very much like the regular NADA Guide. It is published three times a year, and the subscription price is $35. A subscription may be ordered from: NADA Appraisal Guides, Older Vehicle Guide, P.O. Box 1407, Covina, CA 91722.

The market for collectible cars is a large one, depending upon how you define collectible. I would say a collectible car is one which has a value in excess of its utility as transportation. A few such cars would be the Mustangs through 1973, Camaros, Firebirds, the various SS Chevrolets, some of the performance Fords and, believe it or not, many of the Chrysler performance cars—such as the Challengers, Chargers, Road Runners, and SuperBirds. Of course, with this type of car, the values can be all over the lot, so some knowledge helps.

Another good reference guide to this market is a quarterly publication called CPI, which stands for Cars of Particular Interest. While CPI contains a wealth of information, it is not a substitute for the NADA Older Vehicle Guide for a couple of reasons. One, it does not offer comprehensive coverage on transportation cars, but, instead, restricts coverage to those cars the publisher feels are collectibles. Secondly, CPI's format deviates from the conventional guide book. Values are shown as a low-to-high range, with an average. All values are assumed to be retail.

The advantage of CPI, though, is its coverage. It lists virtually all collectible cars back to 1946, and an annual subscription to this quarterly report is available from CPI, P.O. Box 11409, Baltimore, MD 21239 for $12.

Within the pages of the CPI and the NADA Older Vehicle Guide, there is much more than a large group of cars and a guide to net profit boosters. Within those pages is, really, the last hurrah from a performance point of view. ÆE

AUCTION BLOCK

Pros and Cons on Auction Use

Whenever automobile dealers gather to discuss the wholesale auto auctions, it is not surprising to find they fall into three groups—the "staunch advocates," the "adversaries," and the "indifferents." The "staunch advocates" cannot say enough in favor of attending at least one auction per week. At the other extreme are the "adversaries," who look upon the auction as a place to stay away from. They probably haven't been to an auction in 10 years—if ever—and regard most of the merchandise on the block as someone else's junk. The third type—the "indifferents"—take no position and, chances are, make infrequent use of the facilities available at an auction. "Indifferents" justify not attending auctions with statements such as these: "There are none close." "I don't have anything to sell there." "Why would anyone put a clean car on the block in this market?" "I don't know any reputable dealers who will go." "I don't like the environment." What probably deters this type of dealer most, though, is a lack of understanding of the used car market and of the auction process itself.

"He regards the auction as part of his inventory—a part that costs him nothing."

Is it economically practical to take a car, or several cars, to an auction and put them on the block? There are direct fees involved, there is the cost of manpower to transport the vehicle or vehicles to the market, and a certain amount of risk is also attached: There is no assurance the cars will be sold, and certainly no assurance that they will bring the desired price (which may be too high from the onset). Of course, if the dealer, or his used car manager, attends, the labor cost increases.

An experienced auction user is not misled by the somewhat inflated percentages of consigned cars sold which, unfortunately, some auctions regard as acceptable practice. According to the 1980 Cox Broadcasting Annual Report, the Manheim Group of auctions sold an average of 59 percent of cars offered. Our experience, from chatting with auction owners and operators, would lead to the conclusion that a sales figure of 65 percent would be regarded as excellent. An auction-wise dealer, having learned this the hard way, would estimate his chances of selling his cars—allowing for the condition, mileage and make—as possibly two out of three.

The non-auction user could possibly make a point or two, but really: Is 65 percent such bad odds? How many times do those who sell at the curb get a fair price every time at bat? Oh, you can give away your cars 100 percent of the time, but for how long? Let us consider some of the intangible benefits to be derived from attending an auction.

When we were in New Orleans with NIADA recently, we took a few minutes to chat with Joe Eikenberg of Baltimore, Maryland, and his son Joe Jr. Joe Sr. seldom goes to an auction, but his son is a firm believer in the process and goes as often as need be. He regards the auction as part of his inventory, an inventory which costs him nothing in the way of space or tied-up funds. He is a buyer, on balance, but he will sell when it is necessary or when he feels a need to rotate his inventory. More important to Joe Jr. is the free education he receives at the auction. He has a chance to watch the *local* market in action. He sees dealers he knows by sight or by reputation, and gets an idea of what they are buying and what they are paying. He derives an extra benefit from this because he can, without even thinking about it, reconsider the value of the cars he has in inventory back on the lot. He knows that cars aren't worth what *you* paid for them; they are worth what *someone else* will pay for them. Joe Jr. is hard-put to express a negative thought on the auction process.

This is not true of Joe Sr., however. He feels that some dealers are known as retailers, and others as wholesalers. He believes a wholesaler can do better with the same car than can he, an established retailer. In his opinion, prospective buyers look askance upon a car which he puts on the block. Why would a *retailer* be offering the car? Joe Sr. went on to say that some dealers are known as buyers and some as sell-

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AUCTION CLASSIFIED

ers, and when buyers sell, the veteran buyers sense something amiss. He gave an example: In his market, there is a dealer who does very well retailing used Buicks. The dealer is, traditionally, a buyer of used Buicks. He is the man to call when you have a good used one. So, when this dealer offers a Buick at the auction, there is a tendency to back off.

"He has a chance to see the local market in action."

Of course, we asked the obvious: Are the almost conflicting attitudes between father and son the result of a generation gap, or do the conditions as stated really exist? Joe Sr. does not appear to be that much older than his son, though obviously a number of years separate them. Furthermore, father and son appear even closer in their overall approach to business. This discounts the generation gap theory. Their attitudes are soundly based.

Where does this leave us? Certainly with no definite conclusion. One personal observation: I may buy a common stock without consulting a broker, but I would not buy it, regardless of how well I know the company, without following the market activity for a week or so. I would not assume I "knew" its value as a stock even if I knew the worth of the company. "Overpriced" stocks can often lead to handsome profits just as "undervalued" stocks can lead to disaster.

Æ

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into the car—that is federal.

AE: Despite what's happening right now to the business, do you feel that the automobile market in Canada is promising, or are you beginning to wonder if perhaps something has happened to this business that you have so much enjoyed for so long?

Brault: I'm a firm believer that the automobile business is here to stay. In one form or another, it will not disappear. I'm convinced of that, and I don't think I'm the only one. Jokingly the other day, one of the speakers at one of our FADA meetings was saying, "It amazes me all the time. The people who so much favor public transport never use it." So, I think it's here to stay.

My worry is, what form will the business take in the future? Are we going to see the franchised system as we have it now? How will it be modified? How is change going to affect us? I wish I knew, because I'd try to get ready for it.

I'm concerned, but I have no doubt that though it may involve five-wheeled cars, or three wheels, the business is here to stay. This country is too big. It's like yours. There's no way you can have a mass transportation system as good.

AE: What makes you think that the franchised system may change?

Brault: Well, it's been said, that the system is an anachronism. But, nobody has got anything better yet. So, are we going to have to have several car lines to survive? Will we continue to be absolutely exclusive? Will we have to move to shopping centers? This is the area where my knowledge is limited.

AE: In Canada, do you think the dealer will stay a parts and service merchandiser as well as everything else, or do you think he'll begin to be a supermarket and nothing more?

Brault: I think for too many years we have neglected the aftermarket, and the service business. I think historically we've neglected all that from day one. I'm not sure of the figure, but I think we control only 20 or 22 percent of the aftermarket.

Maybe there was too much pressure from the manufacturers to sell cars. The showroom was really the big thing. But today, we are discovering that if we are to survive, it's going to be with these after-services—especially if it's true that people will soon begin to keep their cars for 10 years. They'll *have* to get their cars fixed.

I think we're very late in getting where we should be, and consequently you have mass merchandisers like Midas Muffler all over the place. That business just slipped through.

When I started, the big trend in leasing was maintenance lease; that was the big pitch: give us your worry. All of a sudden, this all disappeared. Nobody wanted to touch maintenance because of union contracts, and now, everybody is saying we should go back to full lease. Look at what some companies are doing: they're coming up with warranty extension programs to try and recoup this business that is ours.

AE: Getting back to service, what do you think you can do as a dealer federation to reverse the trend? What can you do to get customers back?

Brault: Well, in my opinion, the customer, if you ask him, would prefer to come back to our shop. A survey we did less than two years ago indicates that. As to what the federation can do, well, I think this year, the priority with FADA is Industry Relations. Last year, it was government relations because of the Bank Act. We made a big stride this year with an excellent seminar on leasing. It made sense—we won the Bank Act, now let's use the damn thing. Let's get the people involved. But I think next year, we are going to try to make our dealers aware, through seminars, of ways to be more effective with service and parts, because that is going to be very important. I'm sure there is more that we can do, but that, to me, is one effective way to get to the dealers to help them.

Also, by removing the exclusivity clause, that will allow a dealer to get into a muffler franchise or a tire franchise, for instance, to try to be competitive. We've lost a lot of market: automatic transmissions used to be big revenue. But then, all of a sudden, the specialty firms came along and that market vanished. Yet, there is no doubt we can and must try to get some of these markets back. Æ

CALENDAR CALENDAR CALENDAR CALENDAR

July

12 to 15. West Virginia Automobile and Truck Dealers Association Convention, The Greenbrier, White Sulphur Springs, WV

19 to 22. *Automotive News* World Congress, Hyatt Regency Hotel, Dearborn, MI

26 to 30. National Association of College Automotive Teachers Conference, Northern Virginia Community College, Arlington, VA

August

2 to 5. Michigan Automobile Dealers Association Convention, Grand Hotel, Mackinac Island, MI

11 to 16. Midwest Mobile/Modular Home and Recreation Vehicle Show, University of Notre Dame, South Bend, IN

16 to 20. National Women's Automotive Associates Convention, Bahia Hotel, San Diego, CA

September

17 to 27. International Motor Show, Frankfurt, West Germany

24 to 26. Truck Body and Equipment Association Convention, Detroit Plaza Hotel, Detroit, MI

24 to 27. Virginia Independent Automobile Dealers Association Convention, Ramada Inn, Virginia Beach, VA

October

11 to 14. Northern California Motor Car Dealers Association Convention, Monterey, CA

21 to 25. 1982 International Auto Show, Kingdome, Seattle, WA

21 to 31. London Motor Show, Earls Court, London, England.

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up so much investor interest.

Institutional investors tend to place more reliance on the Standard & Poors 500, which they feel is far more representative of the market.

The 1000 Mark

Many feel that reaching the 1000 mark, which has long been considered by many a sort of "ceiling" would inevitably accelerate selling and cause a drop. The Dow first flirted with that number in late 1965, and has reached it several times since, but has always retreated. But, recently, the Dow reached an eight-year high and investors are wondering whether that "ceiling" might at last become a "launching pad."

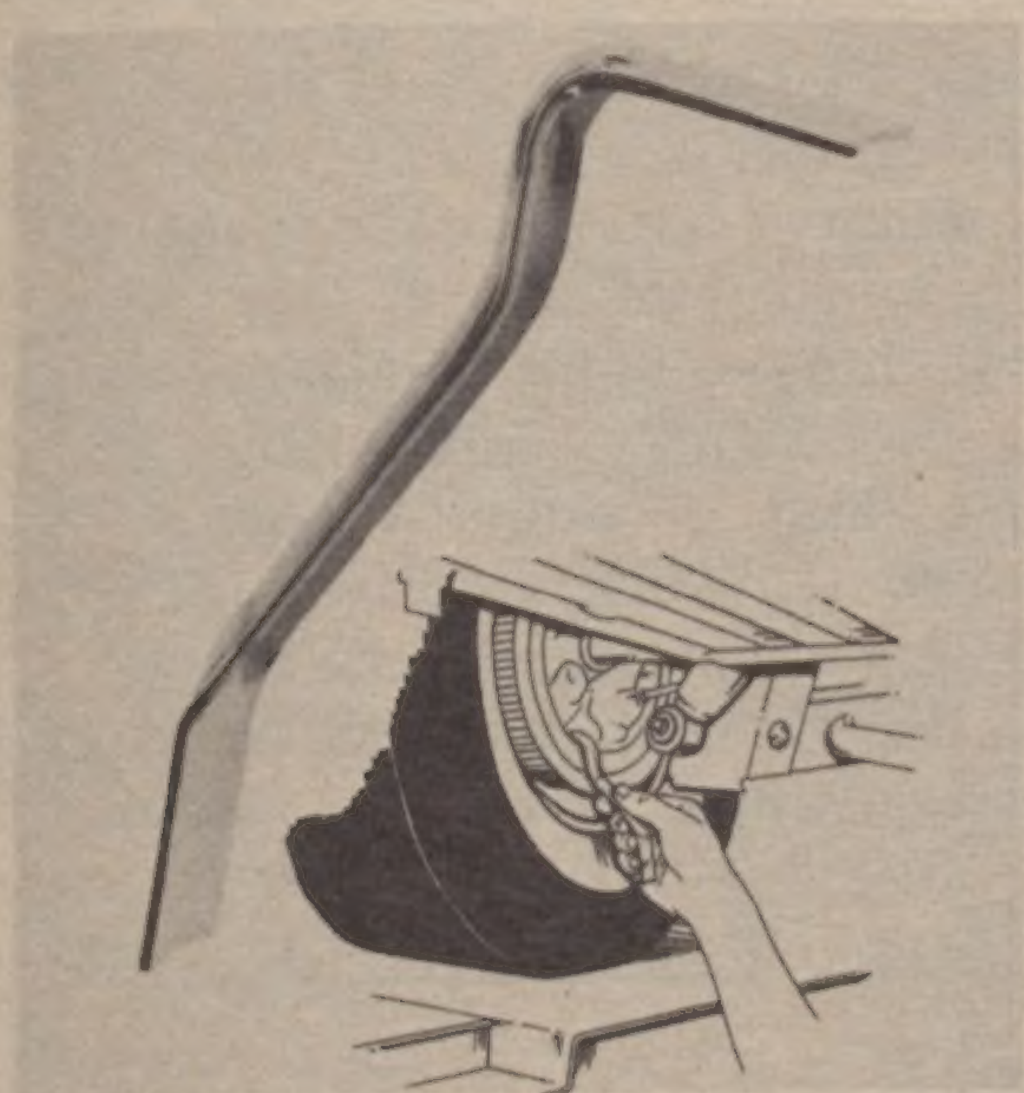
Actually, many analysts point out, the significance of breaking 1000 is entirely psychological. If the Dow stays above that mark for awhile, it may well give confidence to investors, and spur increased buying. If this happens, some analysts are saying that while there may be a period of fluctuation, the Dow Jones average could exceed even 1500 within the next two or three years. Æ

Advertisers Index

Showcase

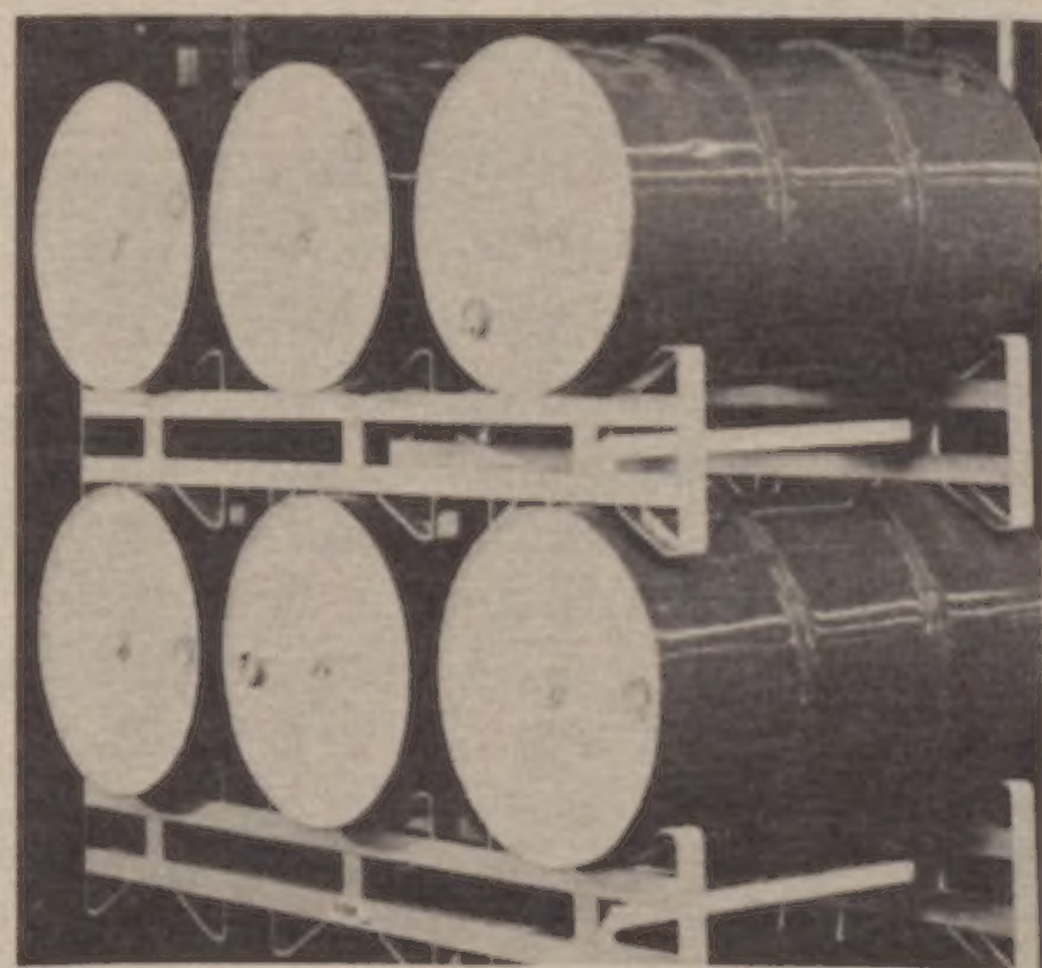
WHAT'S NEW ON THE MARKET

A **brake adjustment tool** has been added to the Lisle line of specialized automotive hand tools. The tool, model 50700, can be used on most makes and models of imported and domestic cars with star-wheel adjusted drum brakes. Manufacturer: Lisle Corp., Clarinda, IA 51632.



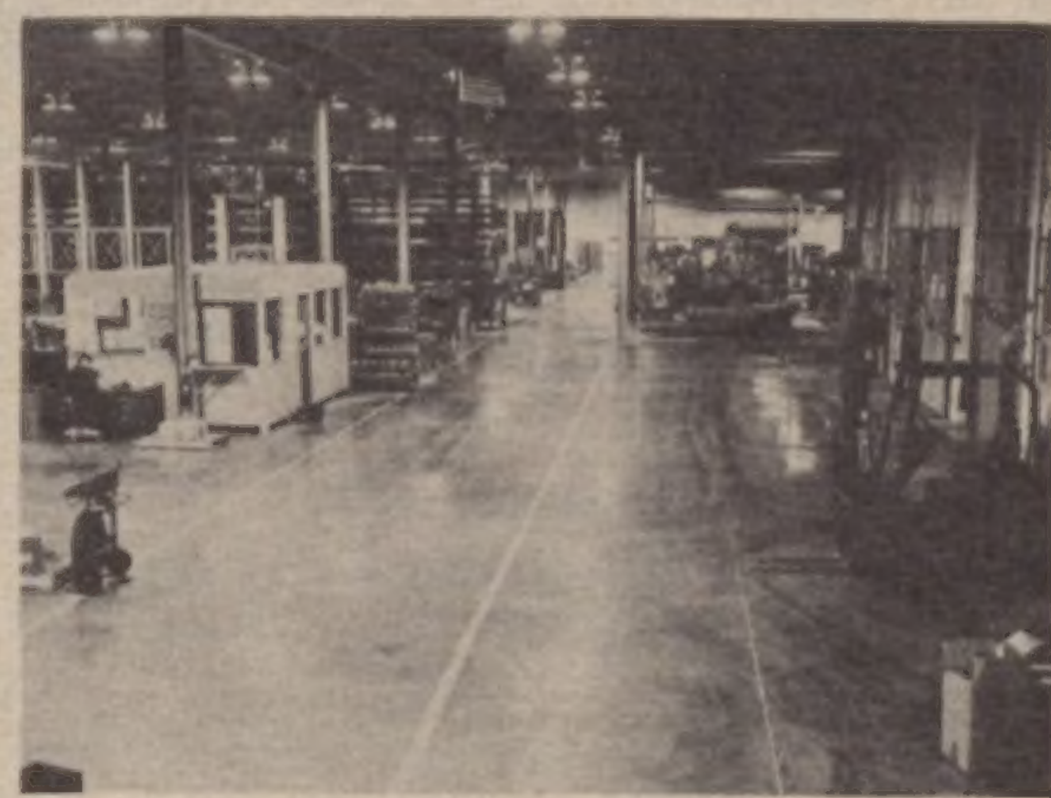
WypAll, a best-selling disposable towel from Scott Paper Co., absorbs up to three times as much fluid as a rag containing synthetic fabrics, according to the manufacturer. WypAll conforms comfortably to the shape of the hand, and it costs only about half as much as a rag or rental towel. The nonwoven, bonded cellulose wiper is particularly noted for its ability to absorb liquids and most common solvents. Contact: Aitkin-Kynett, The Bourse Building, Philadelphia, PA 19106.

Faster movement and vertical storage of 55 gallon drums can be achieved with the **Tri-Drum,** a patented all-welded nesting and stacking frame that nests three drums lying side by side. Handled with a fork truck, each Tri-Drum has a capacity of 2,250 pounds, and stacks five high. Manufacturer: Jarke Corp., 6333 W. Howard St., Niles, IL 60648.



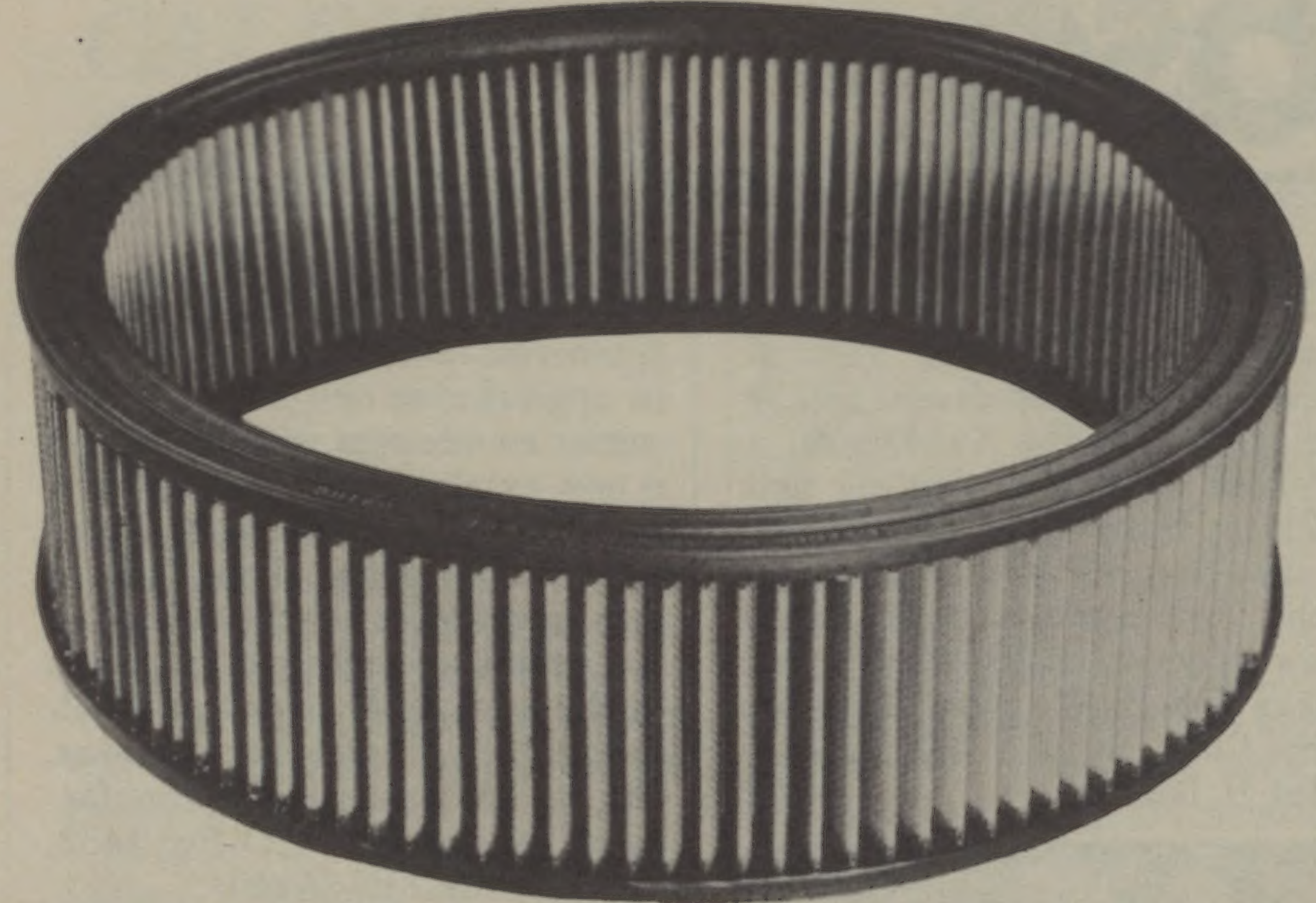
Check-It Electronics announces a new, **digital reading device** for locating problem injectors on glow plug-equipped engines. The Digital Lohmeter shows how each cylinder is firing by displaying glow plug resistance digitally in tenths of an ohm on a ½-inch-high liquid crystal display. The device reads from 0.0 ohms to 199.9 ohms, with simple off-on switch operation. Manufacturer: Check-It Electronics Corp., 560 Trumbull St., Elizabeth, NJ 07206.

A low-cost **concrete seal** that can be applied over existing seals and curing membranes without etching is now avialable from Tennant Co. Known as 400 Concrete Seal, the water-borne satin gloss floor finish eliminates concrete dusting and protects floors from moderate traffic wear, mild acids and alkalies, salts, fluids and grease, stains, dirt, and other spillage. Manufacturer: Tennant Co., P.O. Box 1452, Minneapolis, MN 55440.



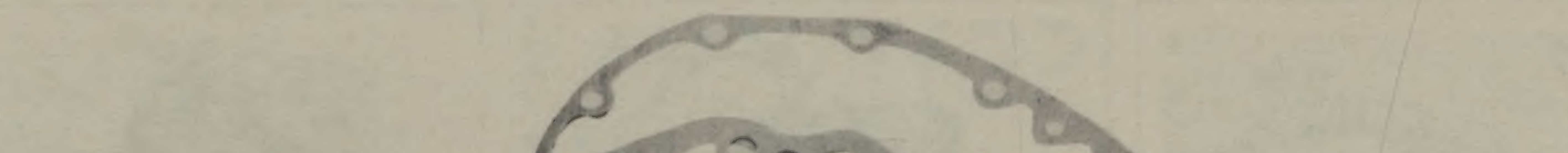
The Nortron Corp. has introduced a new **computer wheel balancer**—the model 7403. This model, a fully digital, mocroprocessor unit, is self-calibrating and self-diagnostic. New cabinetry allows all adapters to be stored inside of the balancers. Portable units are available with bases that don't have to be lag bolted to concrete. The Model 7403 can handle wheels up to 42 inches in overall diameter and 16 inches in width. Manufacturer: Nortron Corp., 100 Sun Park Dr., LaVergne, TN 37086.

Information and photographs of products listed in Showcase *have been provided via manufacturer's press releases. A products's appearance in this column in no way implies endorsement by either NADA, the NADA Services Corp., or* **automotive executive** *magazine.*



K & N Engineering has developed a replacement **air filter element** for GM passenger cars and pickups that improves performance and economy in diesel engines. The air filter utilizes a unique screen and oiled fabric in addition to an accordian-pleated element which provides superior filtration for diesel engines. Harmful dust and dirt particles are captured and held in suspension by the special oil saturated element. Clean, unrestricted air passes freely through the oil, providing greater volumes of air to the engine. Manufacturer: K & N Engineering Inc., P.O. Box 1329, Riverside, CA 92502.

The model 4011 voice-operated, single-channel **communications system** is now offered by Columbia Scientific Industries Corp. This model features automatic, voice-actuated/hands-off switching between the master and remote station. In addition to ease of operation, benefits offered in this system include easy installation, solid-state circuitry, call button at remote station, standby and volume controls operated from console, and a manual switch. Manufacturer: Columbia Scientific Industries Corp., P.O. Box 9908, Austin, TX 78766.



Rocket Industries introduces complete **overhaul gasket sets.** The sets include the timing cover and rear main seals, valve cover, intake, exhaust, head, water pump, thermostat, fuel pump, and pan gaskets. The gaskets used in the sets range from stock to heavy-duty performance types. Each set is designed for today's most popular domestic applications. Sets are also available for engines with modified exhaust systems, heads, and parts. Manufacturer: Rocket Industries, 9935 Beverly Blvd., Pico Rivera, CA 90660.